Watching the repeats

Re-running the debate on wide-screen TV

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Exports put the bounce back

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FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY JUNE 16 1993

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Eastman Kodak plans to spin off its chemicals unit

Eastman Kodak, the US photographics products company, plans to spin off its Eastman chemicals business by the end of 1993 as a separate, publicly quoted company with some $4bn in annual sales. *The move follows shareholder pressure for Kodak to improve its financial performance.* Page 15

Clarke committed to UK growth:

Kenneth Clarke, Britain's new chancellor of the exchequer, sought to define his economic policy by underlining his commitment to growth as well as to low inflation. In an anxiously awaited speech to the City of London, Mr Clarke said *Britain could* not rely on recovery alone to cut its £50bn ($77bn) annual budget deficit, but would also have to act tough on public spending. Page 14 and *Lex*; Editorial Comment, Page 13

Scuffles in Japanese parliament: Fighting broke out in parliament as senior members of *Japan's ruling Liberal Democratic* party argued over the merits of reforming the political system. Page 14; Bankruptcy rates fall, Page 4

Murdoch takes HK media stake: Rupert Murdoch's News Corporation is to pay HK$1.85bn ($240m) for a 22 per cent stake in Television Broadcasts, one of Hong Kong's two domestic television companies. Page 15

US inflation slows: US consumer prices rose 0.1 per cent last month and by 3.2 per cent in the year to May, providing further evidence that inflationary pressures are moderating. Page 6

Saudi oil merger: Saudi Arabia is to merge Samarec, its oil refining and marketing arm, with Saudi Aramco, its oil production company, to create the world's largest oil concern. Page 15

Kravchuk seeks to bolster power: Ukraine's president Leonid Kravchuk called for a referendum on the country's constitutional structure and early parliamentary elections. Page 3

Rothschild Bank, Zurich affiliate of NM Rothschild of London, has made provisions of SFr270.9m ($187m) against bad loans in the past two years, more than previously estimated. Page 15

Timex to close Dundee plant: Timex is to close its electronics plant in Dundee, Scotland, after unions rejected an offer to reinstate the sacked workforce on lower wages. Page 14

National Semiconductor, US chipmaker which last year restructured its global operations, reported record sales and earnings for 1992-93, lifted by a strong fourth quarter. Page 17

SPD backs telecoms sell-off: Germany's opposition Social Democrats will support the government's plan to privatise Deutsche Telekom, the state-owned telecoms monopoly. Page 2

Call for scrapping of Nigeria poll: The party running second in Nigeria's presidential election called for the results to be cancelled because of "rigging". Moshood Abiola, the business tycoon, appeared to heading for victory. Page 4

Fokker launches regional jet: Fokker, Dutch aircraft manufacturer 51 per cent owned by Deutsche Aerospace, began production of its 79-seat regional jet, having won $400m worth of orders from Indonesia. Page 5

Cambodia rebel takes refuge: Prince Norodom Chakrapong, leader of a five-day-old Cambodian secessionist movement, took refuge in Vietnam. Page 4

Malawi opposition claims victory: Malawi opposition groups claimed victory in a referendum over the one-party rule of President Kamuzu Banda and demanded he be replaced by a coalition government of national unity. Page 4

Recall of Brezhnev era leader: *Azerbaijan's* Brezhnev era KGB and communist party chief, Heidar Aliyev, was elected chairman of the former Soviet republic's parliament. Page 3

Aideed may stand trial: Somali warlord, General Mohammed Farah Aideed, will be brought to trial if an inquiry confirms allegations that he ordered the ambush that led to the death of 23 Pakistani peacekeepers, the UN said. Page 4

James Hunt dies: James Hunt, Britain's world formula one motor racing *champion* in 1976, died after a heart attack at his home in Wimbledon, south London. He was 45.

■ STOCK MARKET INDICES		
FT-SE 100:	2870.0	(-15.5)
Yield	4.01	
FT-SE Eurotrack 100	1173.17	(-8.42)
FT-A All-Share	1418.1	(-0.4%)
Nikkei	20,045.88	(-351.47)
New York: lunchtime		
Dow Jones Ind Ave	3508.65	(-6.64)
S&P Composite	447.47	(-0.24)
■ US LUNCHTIME RATES		
Federal Funds:	3$\frac{7}{16}$%	
3-mo Treas Bills: Yld	3.106%	
Long Bond	104$\frac{5}{32}$	
Yield	6.794%	
■ LONDON MONEY		
3-mo Interbank	5$\frac{15}{16}$%	(same)
Liffe long gilt future:	Jun 105$\frac{13}{32}$	(Jun 105$\frac{11}{32}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Aug)	$17.61	(17.945)
■ Gold		
New York Comex (Aug)	$370.8	(366.6)
London	$365.75	(363.95)

■ STERLING		
New York lunchtime:		
$	1.522	
London:		
$	1.522	(1.5275)
DM	2.4925	(2.48)
FFr	8.385	(8.34)
SFr	2.2275	(2.2125)
Y	160.75	(160.5)
£ Index	79.5	(79.4)
■ DOLLAR		
New York lunchtime:		
DM	1.6375	
FFr	5.5075	
SFr	1.4635	
Y	105.6	
London:		
DM	1.6375	(1.624)
FFr	5.51	(5.46)
SFr	1.463	(1.449)
Y	105.6	(105.1)
$ Index	63.9	(63.7)
Tokyo close Y 105.93		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45		
Croatia	HRD5700	India	Rs40	Nigeria	Naira45	Slovenia	SLT220		
Cyprus	C£1.00	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta200		
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20		
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£30.00		
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250		
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000		
						UAE	Dh11.00		

Davignon attacks EC 'timidity' on unemployment

Industrialist calls for US-style labour flexibility to meet import competition

By Lionel Barber in Brussels

VISCOUNT Etienne Davignon, one of Europe's most powerful industrialists, has launched a *scathing attack on EC political* leaders. He accuses them of being too timid to deal with the unemployment crisis.

Mr Davignon said in an interview with the Financial Times that European industry should consider adopting American-style labour market flexibility to strengthen manufacturing against competition from Asia *and the US.*

Mr Jacques Delors, president of the European Commission, will make a personal presentation on the EC's failure to create new jobs at the EC summit in Copenhagen on Monday.

Mr Delors is said to be ready to tackle the sensitive issue of whether Europe's welfare state is indirectly contributing to low growth, but reluctant to disavow the Maastricht treaty's social chapter.

Mr Davignon, a senior member of the European Commission in the early 1980s and now chairman of Société Générale de Belgique, *the biggest holding company* in Belgium, said he was worried about industry polarising along free-market and protectionist lines in the EC.

Instead, it was necessary to adopt a new approach to job creation, with more short-time working and flexible hiring and greater attention to fostering small businesses.

"This is a very tough message," he said, "but if you look at history in the US, the jobs and growth have not come from large companies like General Motors, *IBM and Exxon.*"

Behind Mr Davignon's intervention lies a fear among Euro-

Editorial Comment ....Page 13

pean industrialists about political drift inside the EC and the risks *of a social explosion caused by* low growth, rising unemployment and a crisis of business confidence.

"You see it in our companies," he said. "If you want $300m for lay-offs and restructuring, you get approval in 15 seconds. But if you go out and buy something, your share price goes down."

According to Mr Davignon, *Europe's leaders,* as well as the European Commission, have failed to respond properly to two historic shocks: German unification and the collapse of the Soviet empire. Instead, they have applied a philosophy of "business as usual".

He added: "It is a conspiracy of silence, but it is not deliberate. It is based on fear."

Since his days as industry commissioner in Brussels, when he helped to restructure the European steel industry, Mr Davignon has been an activist par excellence.

He argued that EC leaders' approach to the collapse of communism was flawed and "totally lacking in imagination". By treating the former communist countries as market economies, the *EC was allowing cheap imports* to destroy jobs in the west.

Retaliatory measures such as anti-dumping duties were merely destroying jobs in the east and deterring foreign investment, he said. His tentative proposal was to negotiate quotas with fixed prices, so as not to disrupt western markets.

The EC's approval of aid to *make nuclear reactors safe was* dismally slow, Mr Davignon said. "One more Chernobyl and you can forget the nuclear industry in western Europe."

On Europe's exchange rate mechanism, Mr Davignon argues that the two official inquiries into last September's ERM crisis by the EC's monetary committee and the EC committee of central bank governors were a whitewash.

Mr Davignon is pressing the Commission to launch a campaign to argue the merits of a single European currency in terms of medium-term economic *stability and the need to preserve* the single European market.

Senior EC officials agree with Mr Davignon that political leaders need a new initiative to restore credibility to the Emu enterprise. A short-term step would be to agree on the site of the European Monetary Institute, the precursor of a European central bank.

A Bosnian Serb armoured car passes a destroyed mosque in a village *near Gorazde, eastern Bosnia. Fighting continued in the area after* radio appeals for intervention to save Gorazde from the Serbs

Bosnia leaders meet

International mediators for former Yugoslavia today meet leaders of Bosnia's warring factions in Geneva in the increasingly desperate search for political solutions to end the violence.

Lord Owen, for the European Community, and Mr Thorvald Stoltenberg, for the United Nations, said yesterday they expected the meetings to pave the way for a reconvened international conference on the former Yugoslavia which would assemble the participants in last August's London conference.

President Slobodan Milosevic of Serbia, Croatian President Franjo Tudjman, President Momir Bulatovic of Montenegro and Mr Alija Izetbegovic, the Bosnian president, will meet together with the mediators.

Lord Owen said yesterday it was clear there would have to be "adjustments" to the Vance-Owen peace plan. An overall halt to hostilities depends on an overall political bargain, he said.

Fresh effort to restart talks, Page 3

S Africa talks in chaos as Inkatha walks out

By Patti Waldmeir in Johannesburg

SOUTH AFRICA'S constitutional negotiations were thrown into crisis last night after the mainly Zulu Inkatha Freedom party and its allies walked out of the talks.

The rightwing Conservative party and the governments of several conservative black homelands also walked out, leaving only the South African government and the African National Congress plus their allies, participating in the talks. Delegates said they would consult their principals over whether to withdraw permanently from the 26-party constitutional negotiating body.

ANC and government officials made clear that talks would proceed without the dissident group, which calls itself the Concerned South Africans Group, but the legitimacy of a constitution written only by the ANC and government would be jeopardised.

Mr Cyril Ramaphosa, the ANC's chief delegate, accused the *group of blackmail.* "We regret the move to walk out of the negotiating chamber . . . they embarked on a very disruptive and unconstructive way of handling matters," he told a news conference."

The move appeared to be an attempt by Chief Mangosuthu Buthelezi, the Inkatha leader, to test his strength within the negotiations, as well as to determine whether the government would back him or the ANC in a dispute. The government made clear it would risk isolating Chief Buthelezi and his allies rather than impede progress in negotiations.

Inkatha, which has significant support in Natal province, where a quarter of the population lives, could seriously disrupt any elections held under a new constitution.

ANC and government officials blamed Inkatha for deliberately stalling progress in the talks and seeking to prevent confirmation of April 27 1994 as the date for the first multiracial elections. They said efforts would be made

Continued on Page 14

HJ Heinz cuts jobs worldwide in move to reduce costs

By Nikki Tait in New York

HJ HEINZ, the US food group, yesterday announced a range of cost-cutting moves, involving an 8 per cent reduction in its worldwide workforce of 35,500 and a cut in its UK operations.

The company will take a $192m pre-tax charge against fourth-*quarter earnings, to pay for the* shake-up.

Heinz's chairman, Mr Tony O'Reilly, claimed the latest restructuring charge would help Heinz speed up productivity improvements, and concentrate a three-year rationalisation programme into 12 months. Analysts, however, saw the action as further evidence of the pressures which the intensely competitive retail sector is putting on the big consumer product companies.

"All the food companies are *responding to the pressure* by accelerating this sort of restructuring," commented Mr Les Pugh at Salomon Brothers in New York, noting *that the anticipated* operational efficiencies were not expected to bring much additional earnings growth.

Specific changes include: shifts in manufacturing capacity between Canada and the US; a *reduction in operations* in the United Kingdom, Italy, and in the Ore-Ida division; a cut of about 30 per cent, or 240 jobs, at a plant south of Melbourne, *Australia;* the consolidation of all the North American sales service functions in *one Pittsburgh-based* operation; and a merging of the US

Continued on Page 14

Conflicts emerge between Italian investigators

By Robert Graham in Rome

ITALIAN MAGISTRATES investigating corruption yesterday held a hastily convened summit in Rome to head off a squabble over conflicting responsibilities for inquiries.

The main conflicts have emerged between Milan and Rome magistrates, but magistrates from Bologna, Naples and Venice also attended the meeting. A later statement referred to "frank and loyal" discussions, hinting at some tough talking.

The magistrates were reported to be unable to reach agreement on responsibility for the three most important investigations in dispute. These cover dealings behind the parcelling out of television channels between the state and the private sector, telecommunications contracts and the operations of the Ministry of Posts. An appeal court will probably have to establish investigating responsibility.

There was only partial agreement on the probe into construc*tion of the Rome metro.*

Unless resolved quickly the disputes threaten to undermine the investigations as well as infringe the rights of those accused.

"These meetings are necessary, even if it would have been better to have held them earlier," said Mr Giorgio Castellucci, the Rome attorney-general.

As the 16-month-old investiga*tion into corruption and illicit* financing of political parties evolves, the cases are becoming increasingly intertwined. Normally magistrates establish competence over a case if they initiate the investigation and it then remains largely within their geo*graphic area. But the same* names are cropping up in different places as the inquiries spread through Italy.

This has led to people being *interrogated by different sets of* magistrates or, in the case of Mr Giuseppe Ciarrapico, the Rome financier, of being released from custody in Rome to be summoned

Bank of Naples chief under investigation ....Page 2

to Milan the next day.

Milan magistrates – a more homogeneous group with better technological back-up and less subject to political pressure – have set the pace from the start.

Matters came to a head on Monday when Rome magistrates advised three senior politicians – including Mr Giorgio La Malfa, the former Republican leader – that they were under investigation for alleged corruption relating to telecommunications contracts *and the award of television* frequencies. Mr La Malfa claimed he had already received similar notice from Milan.

Rome magistrates also appeared to ignore a deal cut in April between the management of Fiat and Milan magistrates.

Mr Ugo Montevecchi, former chief executive of Fiat Engineering, had already voluntarily *appeared before Milan magis*trates and been questioned for 10 hours. In spite of this Rome magistrates ordered his arrest on Monday for the alleged payment of bribes relating to culture ministry contracts.

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FINANCIAL TIMES
COMPANIES & MARKETS

Wednesday June 16 1993

INSIDE

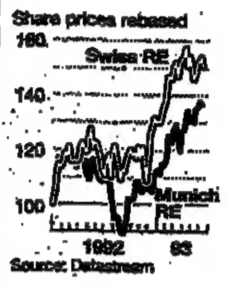
Analysts angry at Fondiaria rights issue

Insurance analysts have disapproved of Monday night's announcement of a L1,058bn ($724.16m) rights issue by Fondiaria, Italy's third biggest private-sector insurer. The insurer reported 1992 group losses of L578bn. Page 16

Sharper focus at FKI

FKI, the electrical engineering group, which has seen its shares values almost triple in the last 18 months, yesterday confirmed it was making progress in improving profitability and restructuring the business. Pre-tax profits increased from £20.68m to £38.05m ($58.2m) in the year to March 31 in spite of £5.4m of reorganisation costs. Page 22

Reinsurers await bull run



The last time reinsurance rates rose significantly, the share prices of Munich Re and Swiss Re, the world's first and second biggest reinsurance companies, doubled relative to their local stockmarkets and tripled in absolute terms. With the reinsurance market in a similar state today, reinsurers could be embarked on a similar bull run. Back Page

Italian borrowing back on track

Italy could be poised to issue one of the world's biggest global dollar bonds as borrowing gets back on track after political upsets and debt downgradings earlier this year. Page 20

Nissan still feels the pain

Nissan caused a stir as the first Japanese car-maker since the second world war to announce a plant closure but the pain is not yet over. Mr Yoshifumi Tsuji, Nissan's president, said the restructuring plan did not take account of the blow to export earnings of the yen's steep rise, and Nissan's options now include price rises and another round of cost cutting. Page 18

Flotation for Dairy Crest

Dairy Crest, the milk and dairy products arm of the UK's Milk Marketing Board, has confirmed its plan to float early next year. Dairy farmers could hold around 70 per cent of the share capital. Page 21

Cap on gold price rises

A widening range of derivative products brought an estimated 86 tonnes of gold on to the market last year. Ms Jessica Jacks, an economist with RTZ, said that while this was not a huge amount, it was enough to cap any price rallies, especially in the short term. Page 28

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				Gaumont	585	+	15
Rises				Skis Rossignol	1089	+	25
DLW	413	+	7	**Falls**			
Falls				Elf Aquitaine	377.8	-	5.6
GEHE	329.5	-	10.5	Eridania B-Say	653	-	25
Holzmann (Ph)	925	-	13	Peugeot	510	-	17
Karstadt	522.2	-	9.8	**TOKYO (Yen)**			
Kaufhof	468	-	9	**Rises**			
Metallgschft	316	-	7	Copal	519	+	37
NEW YORK ($)				Takamisawa E	697	+	89
Rises				**Falls**			
Tiffany	31½	+	3	Janome Sw Mch	456	-	46
Falls				Kyoei Tanker	538	-	72
Eastman Kodak	53¾	-	¼	Nippon Lace	505	-	55
Heinz	36¾	-	1	Teikoku Sen-i	545	-	65
IBM	50¾	-	1¼				
Nike	67	-	1⅛				
Reebok	29	-	5½				
PARIS (FFr)							
Rises							
Gal Lafayette	1554	+	58				

New York prices at 12.30.

LONDON (Pence)				Torex Hire	34	+	5
Rises				Volex	405	+	18
Anglia TV	329	+	12	Watts Blake	415	+	24
Brent Intl	108	+	7	**Falls**			
Cussins	78	+	8	Archer (AJ)	42	-	4
David Lloyd	181	+	13	Cable & Wire	734	-	15
Filofax	114	+	5	Chloride	19½	-	1½
Nearfold	22	+	2½	Kelt Energy	38	-	3
Lon Clydeside	75	+	7	Lonrho	105	-	8
Quality Sftwre	555	+	29	Penna	213	-	10
Sheriff	113	+	13				
Tepnel Diagn	245	+	12				

Kodak to spin off its chemicals arm

By Martin Dickson in New York

EASTMAN Kodak, the US photographics products company, yesterday announced plans to spin off its Eastman chemicals business by the end of 1993 as a separate, publicly-quoted company with $4bn in annual sales.

The move follows shareholder pressure for Kodak to improve its lacklustre financial performance, and comes a month after Mr Kay Whitmore, chairman, said the group would make a large asset divestiture this year.

He said yesterday that the spin-off was one element of a new plan for Kodak which the company would unveil fully in September.

The spin-off will involve a pro-rata distribution to Kodak shareholders of stock in the independent business, which will be called Eastman Chemical Company and will seek a listing on the New York Stock Exchange. Kodak will retain no equity.

Eastman, founded in 1920 to supply chemicals to Kodak's photographic operations, has grown into the 10th largest US chemicals company, ranked by revenues, with sales to Kodak less than 8 per cent of the total.

It makes about 400 industrial and speciality products and has particularly strong positions in PET plastic bottle resins and filters for the tobacco industry. Earnings from operations last year totalled $494m.

Wall Street analysts have long urged Kodak to dispose of Eastman, which accounts for approximately 20 per cent of group revenues, to allow Kodak to concentrate on its core photographic operations and other consumer-oriented businesses.

Mr Whitmore said the spin-off would create two stronger companies, with the management of each concentrating more intently on its businesses.

Kodak shares, which rose on Monday in anticipation of yesterday's announcement, dipped $¼ to $53¾ at lunchtime in New York.

Spin-offs have become particularly popular over the past two years among restructuring US companies.

Mr Whitmore said Kodak had chosen the method rather than a sale to an industrial buyer because the chemicals cycle was in a down phase and this would allow Eastman shareholders to participate in any upturn.

The deal will remove $2bn of debt from Kodak's balance sheet, but Mr Whitmore said this would not change the group's debt-to-capital ratio. Moody's, the credit rating agency, said it had placed Kodak's $7bn of long-term debt under review for a possible upgrade.

Mr Whitmore said that the company was still reviewing in its other, non-photographic businesses for possible operational changes, spin-offs, sales and closures.

It would say more about its strategy and growth prospects in September.

News Corp pays HK$1.85bn for 22 per cent of Hong Kong television company

Murdoch enters Asian broadcasting

By Simon Holberton in Hong Kong

MR RUPERT Murdoch yesterday signalled his intention to become a force in Asian broadcasting with the announcement that his News Corporation is to pay HK$1.85bn (£156m) for a 22 per cent interest in Television Broadcasts (TVB), one of Hong Kong's two domestic television companies and a leading producer of Chinese language movies.

News Corporation will acquire 11 per cent of TVB from each of the company's two controlling shareholders - Sir Run Run Shaw and Malaysian tycoon Mr Robert Kuok.

On completion of the deal, which needs Hong Kong government approval, Sir Run Run will have 23 per cent of TVB and Mr Kuok 21 per cent.

Mr Murdoch said the three-way partnership in TVB "will create the premier Asian company engaged in terrestrial and satellite television broadcasting". Sir Run Run said the addition of News Corp's expertise in international programming and satellite broadcasting to TVB's record of success in Chinese language programming "paves the way for the future growth and expansion of TVB".

Mr Murdoch, who sealed the deal on a visit to Hong Kong last week, has made no secret of his wish to participate in Asia's growing broadcasting industry, especially in China. Fox Television already sells US movies on the Chinese mainland and earlier this year Mr Murdoch visited Beijing for talks with Chinese leaders. He has also expanded his print media interest in the region. Through the South China Morning Post he has acquired a Chinese language newspaper in Hong Kong and a 15 per cent interest in the Bangkok Post, Thailand's leading English language daily. Underlining his ambition to publish on the Chinese mainland, he has also registered the masthead "North China Morning Post".

Over the past year Mr Murdoch has had talks with Mr Li Ka-shing's Star Television about equity participation in the satellite network, but they proved fruitless.

TVB recently entered into an agreement with Turner Broadcasting, Home Box Office, Entertainment Sports Programming Network, Australian Broadcasting Corp and Discovery Channel to lease satellite space on Palapa, an Indonesian-owned satellite.

TVB will supply Chinese language programming for one channel. Unlike Star, which broadcasts five "free-to-air" satellite channels, the TVB consortium will transmit encoded programming for subscribers only.

Analysts viewed Mr Murdoch's purchase of 22 per cent of TVB as only the beginning. Mr Murdoch is seen as the likely buyer of Sir Run Run's shareholding should he decide to reduce his holding further.

Trevor Humphries

Rupert Murdoch said the partnership 'will create the premier Asian company engaged in terrestrial and satellite television broadcasting'

Saudi Arabia to merge its two main oil companies

By Mark Nicholson in Cairo and Deborah Hargreaves in London

SAUDI ARABIA is to merge its two main oil companies creating the largest integrated oil concern in the world, the kingdom said late on Monday. Samarec, the kingdom's refining and marketing arm, will be merged into oil production company, Saudi Aramco.

"It will give the company more energy to look at expanding outside Saudi Arabia and compete head-on with the oil majors. Its potential power as a joint company is profound," said Mr Robin West, who runs Petroleum Finance Company, an energy consulting group in Washington.

Saudi Arabia is looking to expand its downstream outlets for oil through deals in Europe and Asia as well as continuing to expand its production capacity beyond 10m barrels a day. The company's drive to become involved in the industry worldwide will put it into direct competition with multinational oil companies such as Royal Dutch/Shell and Exxon.

Aramco is already the world's largest exporter with current output of 8m b/d and current production capacity of 9m b/d. The company is also custodian of the kingdom's 295bn barrels of proven oil reserves.

Samarec will bring to the merger 1.23m b/d refining capacity from three wholly-owned and three joint venture refineries in Saudi Arabia. This will take the joint company into all stages of the oil industry: production, refining, transport and marketing.

Saudi officials said the merger came at the request of Mr Hisham Nazer, the oil minister, who has been looking to streamline the nation's oil industry for some time. Mr Nazer set up Samarec in 1988 to rationalise management of the country's previously autonomous refineries.

No details have been given of any possible management restructuring in Aramco, nor of the fate of Samarec's present managers. The decision came as a surprise to all but the most senior managers in both companies, according to some senior Aramco staff.

Before the move Samarec (Saudi Arabian marketing and refining company) ran the country's three domestic refineries at Jeddah, Riyadh and Yanbu and was the Saudi partner in joint venture export refineries with Mobil at Yanbu and Shell at Jubail.

These interests, along with Samarec's share of an additional joint venture refinery at Rabigh, part owned by Mr John Latsis, the Greek investor, will move under the umbrella of Aramco. Saudi Aramco already runs the Ras Tanura refinery - the world's biggest with capacity of 520,000 b/d until a fire in 1990 cut output to around 290,000 b/d.

But while Samarec managed Saudi Arabia's main domestic and export refineries, Aramco has over the past two years been increasingly developing its own downstream interests overseas through joint venture refining deals with Texaco in the US, Ssangyong Oil Refining Company in South Korean group and Nippon Oil, with which Aramco has signed a preliminary agreement to refine oil in Japan.

The newly augmented Saudi Aramco will continue a $10bn-$15bn expansion plan, accelerated since the end of the Gulf war in 1991, which is set to raise Saudi oil production capacity to a sustainable 10m b/d by next year from present levels of around 9m b/d. Samarec was also proceeding with an $8bn programme to upgrade and expand all its domestic and joint venture refineries, with the exception of Rabigh.

MEPC in £221.9m rights issue

By Vanessa Houlder, Property Correspondent

MEPC, the UK's second largest property company, yesterday announced a £221.9m ($341m) rights issue, bringing the total raised by property companies in the equity market this year to more than £1bn.

The announcement, two weeks after MEPC's interim results, is likely to complete the recent round of fund raising by the UK's largest property companies.

MEPC is taking advantage of a sharp increase in its share price, which will allow it to issue new shares without greatly diluting its assets. The shares rose from 190p last September to close yesterday at 414p, down 8p on the day.

The proceeds of the one-for-five rights issue, which is priced at 350p per share, will be partly used to refurbish and redevelop property within its portfolio. MEPC said the issue would also allow it to make selective property or corporate acquisitions as opportunities arose.

The money will initially be put on deposit, which will reduce MEPC's gearing from about 80 per cent to 60 per cent.

The rights issue was criticised by some City analysts yesterday for reducing the company's gearing at a time when property values were starting to improve. But Mr James Tuckey, managing director, denied that the rights issue was a degearing exercise.

The group's programme of disposals, partly designed to reduce borrowings, would proceed at a slower pace. MEPC has sold £159m of property since the end of the last financial year.

Mr Tuckey said the decision to make the rights issues was taken after the Board became convinced market prospects were improving.

The company said there was "evidence beginning to emerge in certain areas of the UK of new demand from occupiers. This, coupled with evidence of institutions returning to invest in property, provides the potential for a return to growth."

The Co-operative Insurance Society, which owns 16.7 per cent of the company, is taking up its full entitlement, as are MEPC's directors. The balance has been underwritten by Morgan Grenfell.

The company predicted the dividend would be maintained at 14.75p (net) for the year to end-September.

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Rothschild Bank sees rise in provisions

By Ian Rodger in Zurich

ROTHSCHILD Bank, the troubled Zurich affiliate of NM Rothschild of London, has made provisions of SFr270.9m ($187m) against bad loans in the past two years, substantially more than previously estimated.

Mr Guy Wais, general manager, said yesterday that an investigation by Coopers & Lybrand, the accountants, following the discovery of lending irregularities early last year led to the increase in provisions from the previously stated figure of about SFr220m.

Most of the lending was to the collapsed York Hannover and Castor property groups, and it infringed Swiss law restricting the amount a bank can lend to a single client.

The bank has maintained that the lending was arranged by its former credit manager, Mr Jürg Heer, and that he concealed the details from other bank directors. It has accused Mr Heer, who has admitted receiving commissions of some SFr30m on the lending, of fraud and other offenses. Mr Heer has since fled Switzerland and an international warrant has been issued for his arrest.

The Swiss Federal Banking Commission and the Swiss Bankers Association are investigating the apparent failures of the bank's internal and external control systems. But Mr Wais said yesterday that financially "Heer's file" was now closed.

The bank's 1992-93 annual report reveals changes in its financial structure. Total assets halved from SFr1.34bn at March 31, 1992 to only SFr622.4m a year later. Mr Wais said this reflected a deliberate running down of its lending book in addition to the write-offs.

Shareholder's equity has risen from SFr198.7m to SFr206.1m, reflecting an injection by a Rothschild family company of SFr120.5m in new capital. This was achieved by its purchase of a part of the bad loans at face value. The injection also made it possible for the bank to show a net income last year of SFr12.8m compared with SFr24.5m the previous year. The annual dividend was cut from SFr10m to SFr5.5m.

Sir Evelyn de Rothschild, chairman, said operating profits, which were down only SFr2.5m to SFr57.1m, were "good" and the bank's balance sheet was "extremely sound".

Swiss scandal, Page 16

FINANCIAL TIMES
Wednesday June 16 1993

UK Chancellor stresses growth and low inflation

Clarke backs commerce and standards of living

By Peter Norman, Economics Editor

MR KENNETH CLARKE put his stamp on UK economic policy last night by identifying himself with commerce and saying he wanted to be remembered "as a chancellor under whom the British businessman and woman and their workforce were able to earn a better living".

In an anxiously awaited speech to the City of London, the new chancellor of the exchequer made no changes of substance to economic policy.

But, setting a new tone, he emphasised that his goal was to raise living standards, and he stressed the importance of growth as well as low inflation.

Observing that "we cannot rely on recovery alone to bring borrowing back towards balance", he made clear that he would take a tough line on public spending and would not shrink from further measures to reduce Britain's £50bn ($77bn) annual budget deficit.

He recalled that the government had already taken steps to reduce the deficit by controlling spending and increasing tax revenue. "But if I judge that further action is necessary, I shall not hesitate to take it," he added.

Speaking after news of a further strengthening of manufacturing output and steady growth in retail sales, Mr Clarke gave a moderately upbeat assessment of the UK economy.

Manufacturing growth fastest since May 1989..............Page 7
Editorial Comment .....Page 13

Britain was more fortunate than many of its European Community neighbours, he said. While signs of recovery were "mixed and in some cases muted", he said "the momentum for growth is clearly there".

Mr Clarke set three objectives for economic policy that could have been taken from any recent speech of his predecessor, Mr Norman Lamont. He promised:

- To keep inflation in its target range of 1 per cent to 4 per cent, bringing it within the lower half of the range by the end of the parliament.
- To restore the public finances to better health and towards balance "over the medium term".
- To sustain the recovery and ensure that it lasts.

Those aims were given a special spin that reflected his life "in the industrial Midlands", where, he said, "I have acquired a deep and abiding respect for all those engaged in the difficult business of commerce."

"It is commerce alone which generates the prosperity which enables government to raise the living standards and hopes of all the British people," he said. "That is the key principle which will guide my hand as chancellor."

In giving a broad outline of policy, Mr Clarke referred to himself as a "pro-European", but made clear that "it would be quite some time" before it would be right for the UK to return to the European exchange rate mechanism.

LDP men scuffle in Japan's corridors of power

By Robert Thomson in Tokyo

SENIOR members of Japan's ruling Liberal Democratic party, who claim to be wrestling with their consciences over political reform, yesterday grappled physically with each other in an unscheduled bout in Japan's corridors of power.

In one corner were the reformers, frustrated by the LDP's reluctance to change a scandal-prone political system, and in the other were officials who have prospered from the present system and fear that change would threaten their political privileges.

The two sides confronted each other outside the party room in the Japanese parliament (Diet), and within range of the television cameras, giving Japanese viewers a ringside seat and providing them with vivid documentary evidence of the urgent need for political reform.

After pushing, shoving, headlocks and half-nelsons, the LDP party meeting convened. It decided not to make a decision on political reform, passing the responsibility to Mr Kiichi Miyazawa, the prime minister, and four other party elders.

The argument is over whether the current multi-seat constituencies, which are prone to manipulation by party factions, should be replaced by a single-seat system, by proportional representation, or by a cocktail of the two. Tougher controls are also proposed for political funding.

Mr Miyazawa, who has delegated all responsibility in the issue, is now confronted by the need to make a clear statement either deferring reform or extending the present parliamentary session. His colleague, Mr Seiroku Kajiyama, the LDP's secretary-general and head-counter, has suggested that the debate be delayed for at least two years.

But the previously favoured tactic of putting reform on permanent hold may not work, as the Social Democratic party of Japan, the largest opposition party, has promised to launch a no-confidence motion against the government before the parliamentary session ends on Sunday.

Under normal circumstances, the LDP would easily have the numbers to defeat such a motion. But a pro-reform LDP faction headed by Mr Tsutomu Hata, the former finance minister, claimed to have enough support yesterday to tip the balance against Mr Miyazawa by abstaining from the vote.

Mr Miyazawa has said he will call an election if the LDP loses the vote, and the SDPJ said yesterday: "We are not afraid of an election." Suddenly the prime minister, who hoped to have his prestige untarnished by remaining above the fray, may have to make a decision.

Bankruptcy rate falls, Page 4

THE LEX COLUMN

Clarke's full agenda

The City knew before last night that Mr Kenneth Clarke is a man of considerable political skill. That skill was again in evidence in his Mansion House speech, with its rallying call to business and its emphasis on growth as well as fiscal and monetary rectitude. What remains unclear is whether Mr Clarke also has the special qualities required of a chancellor. The speech was short on detail and left policy options open. It left his audience guessing about the true importance attached to the exchange rate as an indicator. Mr Clarke was tantalisingly vague about the extent to which further fiscal tightening will be necessary.

To be fair, he was unlikely to box himself so soon. The new chancellor may also want to avoid undermining confidence in the recovery by parading his hair shirt, if he was wearing one underneath the white-tie and tails. But at some stage he will have to face the fact that, without a further attack on the PSBR in this autumn's budget, the twin objective of growth with low inflation could well be lost.

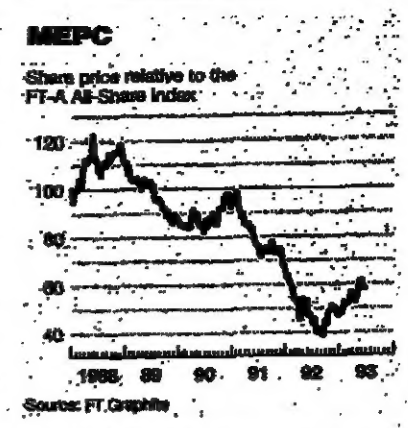
For the time being, the City will have to take it on trust that action will be taken. Thus far, the government's funding programme has proceeded relatively smoothly, but only because real yields are high and gilts are trading at an attractive 130 basis point premium to German bunds. At least Mr Clarke showed he is aware of the cost of borrowing at 8 per cent when inflation is well below two. If the government really means to keep price rises that low, it is getting a very bad deal indeed.

MEPC

Another week, another rights issue from a property company. MEPC is the last of the big seven to take advantage of the sector's recent surge to raise fresh funds. Its £222m cash call brings the total raised in the sector to more than £1bn this year. But although MEPC has asked for the most money, it arguably has the weakest story to tell and may also suffer from being last in the queue. It is difficult to escape the conclusion that it is raising too much, too late.

About half the cash will be used sprucing up MEPC's existing portfolio, which was beginning to fray at the edges. The rest has been loosely earmarked for property or corporate acquisitions. That is faintly unnerving, given the company's proclivity for rearing white elephants in the 1980s.

FT-SE Index: 2870.0 (-15.5)



Shareholders must hope it has learned from the recession.

The broader worry is that MEPC's attractions may pall as investors become more discriminating after the first flush of property spring. The company boasts neither the cast-iron balance sheet of a Land Securities, nor the entrepreneurial spirit of a British Land, nor even the international spread of a Hammerson. MEPC may have crudely calculated that its greatest appeal lay in its fat dividend yield. But securing the resources to pay a dividend is the worst reason of all for launching a rights issue.

Manweb

Manweb has done much that a good utility management should. It cut costs in the first two years after privatisation and looked overseas for examples of best practice. Its investment in a flexible database of customers will allow selling of other services. It has avoided allowing the Trojan horse of other electricity companies' retailing operations into its patch via joint ventures. It has also stuck to its knitting and will only expand gradually through natural extentions to its business. Indeed, it is no small irony that those utility managements best able to cope with the difficulties of diversification are those which have had the sense to avoid it.

Yet the company cannot hide its embarrassment of riches. Cash flow is strong, gearing is down to 6 per cent, dividend cover is 3.3 times and Manweb is not even using the full elbow room allowed by its price cap. Admittedly the company was blessed with a generous price cap on the mistaken assumption that the recession would hit the north hardest. But the regional electricity companies are over-capitalised, and progressive dividend policies will hardly make a dent in balance sheets. There may be brownie points for companies prepared to risk the wrath of the regulator and return the excess equity to shareholders. Otherwise customers, the government, or owners of acquired firms will walk off with the money.

Ciba

Anyone hoping for the disclosure of big hidden reserves to arise from Ciba's transition to international accounting standards will be disappointed by yesterday's figures. Since earnings per share work out 18 per cent higher under the new rules, though, there is little cause for complaint.

The switch from current cost to historical cost valuations alone adds SFr350m to profits, due to lower depreciation. That is at the expense of lower fixed asset values, but the balance sheet has not been shrunk substantially by the exercise. Investors valuing Ciba on the basis of assets per share will find little to alter their opinion. Those who prefer to look at earnings will be encouraged by the change.

Wessex Water

Wessex has a habit of increasing its dividend faster than its rivals. While its unregulated waste business is turning in decent profits – in contrast to others in the sector – such generosity will not worry the regulator. If landfill prices continue to harden, the joint venture with Waste Management International might yet deliver an operating margin of 20 per cent on turnover of £100m this year. Since Wessex is one of the minnows of the sector, that alone would be useful protection against the threat of tougher regulation to come.

It is less clear that Wessex's water business is especially well placed going into next year's regulatory review. Holding operating costs steady for the second year, with the promise of the same this year, looks impressive. But all water companies face a trade-off between operating costs and capital spending. Without more information, the extent of genuine efficiencies is difficult to judge. Ofwat will doubtless want to sort the wheat from the chaff before setting price limits for the second half of the decade.

HJ Heinz to reduce costs and cut jobs

Continued from Page 1

administrative back-up for Heinz Pet Products and Starkist, the tuna business.

The charge meant that operating profits in the final three months of Heinz's financial year to April 28, fell to $54.8m, compared with $230.5m a year ago, on sales of $2.03bn (up from $1.87bn). For the full year, operating profits were down from $1.11bn to $860.9m, with sales rising from $6.58bn to $7.1bn.

The cost-cutting will be spread across Heinz operations worldwide and, although the company declined to put a firm figure on the potential job losses, could prune the workforce by up to 3,000. At the end of its 1992 financial year, Heinz had 35,500 employees.

The fourth-quarter operating profit of $54.8m translated into an after-tax surplus of $69.7m, compared with $145.7m a year ago.

For the 12 months, the Heinz net profits stood at $396.3m, after a $133.6m charge for the adoption of the new accounting standard on post-retirement benefits. The 1991-2 figure came to a total of $638.3m.

Timex Dundee plant to close by year-end

By James Buxton and Lisa Wood

TIMEX yesterday abandoned its fight to preserve its electronics plant in Dundee, Scotland and announced that it would close by Christmas.

The decision followed the rejection by local union leaders of the company's offer to reinstate the sacked workforce on lower wages and conditions. It provoked a furious reaction among union leaders and UK opposition politicians.

Mr Mohammed Saleh, Timex's US vice-president for human resources, said the plant's financial position had become "impossible to sustain". He laid the blame squarely on the local unions, saying: "They did everything possible not to help us keep that plant going."

Mr Saleh announced the company's decision after a final two-hour meeting with local officials of the AEEU engineers union and two conveners of the sacked workforce in a last attempt to settle the 20-week dispute which began when Timex sacked its 343-strong workforce after a strike.

At the meeting, the employees reiterated their rejection of terms negotiated by national AEEU officials under which the sacked workers would be offered their jobs back subject to tests of suitability and the imposition of a 9.8 per cent pay cut, with a reduction in fringe benefits.

Closure of the plant, which was set up in 1946 and now assembles printed circuit boards, marks the failure of long-term efforts by UK Timex to make it profitable. Mr Saleh said Timex had lost £10m since 1987.

It also indicates the failure of Timex's attempt to keep the plant going with the substitute workforce hired after it sacked the original employees in February. The 260-strong replacement workforce had to be bussed into the plant past the picket line.

Timex now wants to go to the UK conciliation service Acas to negotiate an orderly rundown and the proposal will be put by unions to a mass meeting on Thursday. But union leaders in Dundee have said they will not support it.

Yesterday Mr John Kydd, district organiser for the AEEU, said: "I am absolutely sure in my own mind Timex engineered the dispute."

Inkatha walks out of S Africa talks

Continued from Page 1

to persuade Inkatha to return to the talks, but this would depend on the reaction of the irascible and unpredictable Chief Buthelezi.

Yesterday's dispute centred on the form of a future South African state, whether federal or unitary, as well as whether its constitution should be written by an elected constituent assembly.

Inkatha was enraged when yesterday's talks rejected its resolution calling on the negotiating body to consider making South Africa a federal state. Inkatha delegates said this could provoke Chief Buthelezi to make their withdrawal permanent.

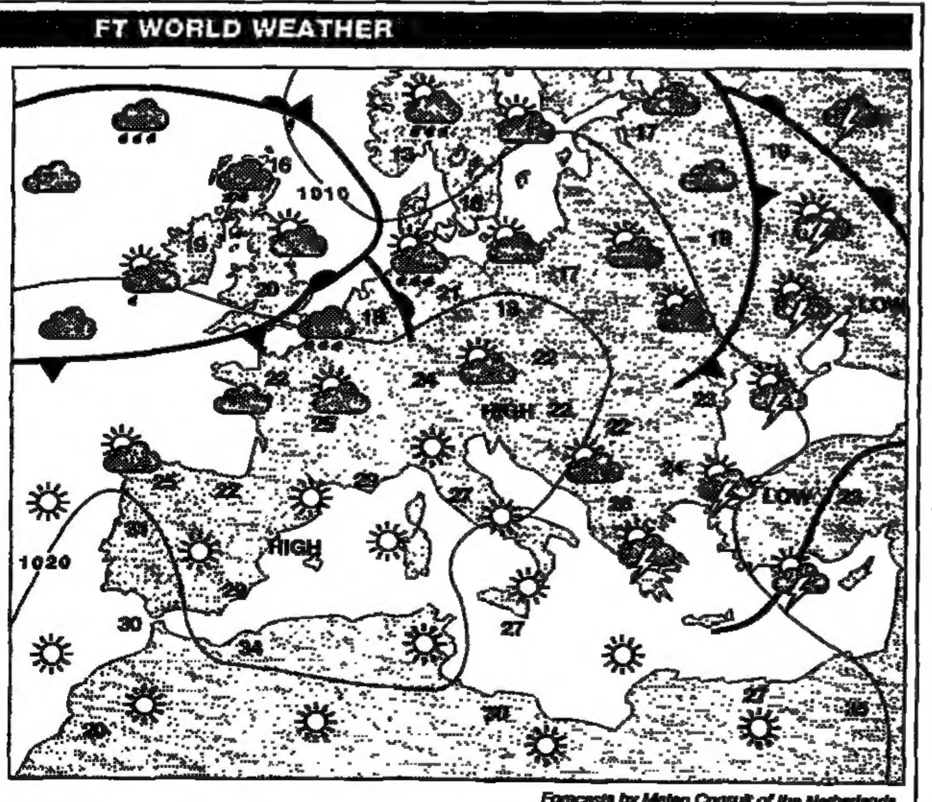
FT WORLD WEATHER

Europe today

High pressure will influence southern and central Europe with sunshine over all of Spain and Italy. The temperatures will rise to 25C-28C, but the north coast of Spain, some clouds and a cool sea breeze will keep the temperatures around 23C. Over the British Isles and the low countries, a low pressure front will cause cloudiness and outbreaks of rain. The maximum temperature will slowly rise towards 16C-20C. France will see sunny spells but later in the northwest, it will turn cloudy with patchy drizzle. At the French Cote d'Azur, it will be sunny and quite warm. Turkey, Greece, Romania and the Ukraine will see afternoon thunder showers.

Five-day forecast

Thursday, the atomsphere will become more settled over western Europe. In the British Isles and the low countries, it will be dry with sunny periods. In southern Scandinavia, low pressure will cause outbreaks of rain. In Spain and Italy, it will remain sunny, but on Friday, in northern Spain, afternoon showers will develop. In Ireland, it will become rainy Friday, and this showery rain will slowly spread east on Saturday. In Spain, France and the low countries, much warmer air will arrive by the weekend.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Berlin	drizzle	19	Chicago	fair	28	Faro	sun	30	Majorca	sun	29	Rangoon	shower	31
	Celsius		Bermuda	shower	25	Cologne	cloudy	20	Frankfurt	fair	23	Malta	sun	27	Rekjavik	fair	12
Abu Dhabi	sun	36	Birmingham	cloudy	18	Copenhagen	rain	17	Geneva	fair	25	Manchester	fair	18	Riyadh	sun	40
Accra	thund	30	Bogota	fair	19	D' Salaam	fair	29	Glasgow	fair	18	Manila	thund	34	Rome	sun	27
Algiers	sun	30	Bombay	rain	30	Dakar	fair	30	Hamburg	rain	17	Melbourne	fair	13	S' Francisco	sun	24
Amsterdam	rain	17	Bordeaux	fair	25	Dallas	fair	33	Helsinki	cloudy	17	Mexico City	hazy	25	Seoul	fair	25
Athens	thund	28	Brussels	cloudy	20	Darwin	cloudy	31	Hong Kong	thund	32	Miami	fair	31	Singapore	cloudy	32
Bangkok	thund	34	Budapest	fair	21	Delhi	fair	40	Honolulu	sun	32	Milan	sun	29	Stockholm	fair	18
Barcelona	sun	28	Buenos Aires	cloudy	17	Dubai	sun	35	Isle of Man	fair	17	Montreal	sun	23	Strasbourg	fair	25
Beijing	rain	30	Cairo	sun	35	Dublin	fair	19	Istanbul	thund	24	Moscow	fair	19	Sydney	fair	14
Belfast	fair	18	Cape Town	fair	21	Dubrovnik	fair	26	Jersey	drizzle	15	Munich	fair	23	Tel Aviv	sun	30
Belgrade	fair	22	Caracas	thund	29	Edinburgh	fair	17	Karachi	cloudy	34	Nairobi	fair	26	Tokyo	fair	25
									Kuwait	sun	42	Naples	sun	28	Toronto	cloudy	24
									La Paz	fair	17	Nassau	thund	31	Tunis	sun	28
									Las Palmas	fair	27	New York	sun	28	Vancouver	fair	22
									Lisbon	fair	34	Nice	fair	23	Venice	fair	25
									London	rain	18	Nicosia	sun	32	Vienna	fair	22
									Los Angeles	sun	27	Oslo	fair	17	Warsaw	fair	17
									Luxembourg	cloudy	19	Paris	fair	23	Washington	sun	29
									Lyon	fair	25	Perth	fair	17	Wellington	cloudy	12
									Madeira	fair	26	Prague	fair	22	Winnipeg	shower	20
									Madrid	sun	34	R' de Janeiro	cloudy	24	Zurich	fair	24

FINANCIAL TIMES

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Wednesday June 16 1993

Banking on Mr Clarke

THE LORD MAYOR'S *guests were* treated to two very different, but equally important, speeches at last night's Bankers' and Merchants' dinner at the City's Guildhall. Top of the bill was Mr Kenneth Clarke, promising much but revealing little on his first public *outing as chancellor of the* exchequer. But it was the valedictory address of Mr Robin Leigh-Pemberton, reflecting on the lessons of his 10 years as governor of the Bank of England, which will have unsettled the stomachs of the City dignitaries.

Mr Clarke's performance, the first "Mansion House" speech to be accompanied by June strawberries rather than October apple pie, was that of the consummate politician rather than the economist or financier. He pleased his immediate audience by stressing the importance his government attaches to maintaining low inflation and returning the public finances to order. But Mr Clarke also played to the wider gallery, emphasising his Midlands roots, his knowledge of industry and *commerce while placing* a new emphasis upon economic growth and higher living standards.

No changes

But Mr Clarke mixes political cunning with his populism. His speech contained no hostages to fortune. Indeed, it contained almost nothing of substance to exercise the minds and computers of listening City analysts.

On monetary policy, the chancellor announced no changes to the *framework his predecessor* announced last autumn. He confirmed the government's target range for underlying inflation of 1-4 per cent and intends to monitor a broad range of indicators. But how does businesses' desire for a competitive and stable exchange rate fit into this picture? No target on display.

On fiscal policy, the chancellor aims to "restore the public finances to better health and back towards balance over the medium term". Growth alone, he said, would not do the trick. But does this require more discretionary fiscal tightening on top of those measures announced in the Budget? And will this mean further tax increases or spending cuts? No clues on offer.

As for the mix of monetary and fiscal policy that the chancellor thinks can deliver sustainable growth without running into trade difficulties, the subject was not addressed. Is the exchange rate sufficiently competitive ? If inflation starts to pick up, will the chancellor allow the exchange rate to rise or instead tighten fiscal policy to choke off demand? How can the British economy, dogged by the twin Budget and trade deficits, possibly deliver sustainable growth and higher real wages for those in work? No discussion provided.

Inflation trap

Yet it was Mr Leigh-Pemberton who sent chills down his audience's collective spine. "We now have low inflation combined with economic recovery, and this offers the prospect of sustained improvement for the first time in many years," he said, quoting from his own first Mansion House speech delivered in October 1983. "The sad fact that I could use exactly the same words today reflects the principal failure of policy in the intervening period – that we did not keep inflation under control."

The Bank, the governor said, has learnt from this failure. "The new policy framework which was put in place after our departure from the ERM is one which will not only, I believe, prove successful and workable in the UK , but is also being applied in other countries." But with one exception: the Bank of England, in contrast with its European partners, remains *the servant of the executive rather* than of parliament. Nor is the Bank's status likely to change, despite Mr Leigh-Pemberton's advice. The chancellor has made it plain that independence for the bank is not on his own agenda, although his speech suggested he is content to let others go on debating the matter.

Yet it is the repeated willingness of successive British governments, making promises just like Mr Clarke's, which have won elections by delivering higher living standards to those in work today at the expense of higher inflation in the future. This is the prime cause of Britain's repeated boom-bust cycles. Mr Clarke's most important task is to show that he knows how to avoid this trap.

Let the eastern exports roll

A TIME of recession and high unemployment is an unpropitious one to seek to persuade EC governments to liberalise trade with their neighbours to the east of the Community. If, however, the EC's proclamations about helping central and eastern Europe are to be anything more than lip service, a rapid relaxation of trade restrictions is essential.

To countries now released from communism's grip, the Community needs to extend the stability and prosperity that it has so successfully nurtured in the west of the continent. Fulfilling this task is in the EC's eminent self-interest. Yet unless the Community provides adequate access for exports from the east, the region's passage into the world of capitalism will be unnecessarily arduous.

At the least, setbacks in eastern Europe would deprive EC companies of growth in markets which otherwise can be expected to show lucrative expansion during the next decade. At the worst, should the transition in eastern Europe seriously falter, this could extend far more widely the disruption and chaos already seen in the former territories of the Soviet Union and Yugoslavia.

EC Commission proposals on trade with eastern Europe will be near the top of the agenda at next week's Copenhagen *summit*. Foreign ministers have already agreed the main points of a plan to accelerate dismantling of barriers for imports of industrial goods, although France and Portugal have succeeded in diluting some parts of the deal.

Starting point

If they are wise, EC leaders will take the proposals simply as a starting point. The Commission's package retains strong elements of protectionism for goods like steel, textiles and food – precisely the sectors where eastern Europe is most competitive. The common agricultural policy is a substantial hindrance to free trade in farm products. But the EC must pledge to eliminate the remaining hurdles at the earliest possible date. This would match eastern European countries' separate commitment to reshape their economic structures as part of preparations for eventual EC membership.

As the region *takes painful* adjustment measures, it needs to be offered a just reward. The EC's provisions for anti-dumping measures against steel imports, for instance, will be unnecessary as the region, as planned, improves transparency of pricing by bringing in EC-style competition law.

Increased sales from eastern Europe in sectors suffering from over-capacity like steel, textiles and fertilisers can accentuate strains on EC enterprises and their workforces. It can also damage EC companies' positions on third markets. But making eastern Europe the scapegoat for general structural and cyclical problems in individual industries is hardly justified.

Tiny proportion

Imports from the east make up a tiny proportion of the EC's trade. Last year, the EC's combined total of purchases from Bulgaria, the Czech and Slovak republics, Hungary, Poland and Romania made up only 1.6 per cent per cent of EC countries' overall import bill. The EC imported more from both Austria (1.9 per cent) and Sweden (2.1 per cent).

Since 1988, eastern Europe's gross domestic product has fallen by roughly 20 per cent. Even with the effects of the recession, the EC's GDP this year, by contrast, will be around 8 per cent higher than five years ago. Since the fall of the Berlin Wall, eastern countries have expanded exports to the west to compensate for a collapse in sales to the former Comecon area. Yet in recent years the EC's exports to *these countries have* risen much faster than its imports. As a result, the EC, which up to 1990 registered a trade deficit with the area, is running a substantial surplus.

Eastern Europe will suffer for many years *the legacy* of communist mismanagement. It would be folly to super-impose on this the effect of short-sightedness by a Community which can afford to be more generous. Eastern Europe's efforts at recovery will be largely *self-generated*. But without a strong helping hand, these countries could slip backwards. Letting them export their produce without restraint to the more prosperous western part of the continent is the most effective way of guarding against this possibility.

Andrew Hill and **Andrew Adonis** examine moves towards the next generation of television hardware

Turn on to the bigger picture

Tune in to the latest international debate about what sort of television the world will be watching in the 21st century and you might guess that a repeat is being broadcast.

European Community ministers will today discuss an "action plan" to promote wide-screen television services in Europe. It is the sixth time ministers have debated such a plan since the Commission put forward the idea in April 1992.

The crucial issues in the debate remain unchanged. What steps should the EC take to encourage the next generation of television hardware? And how much should it spend on promoting advanced television for Europe?

The international television industry now has to choose from a menu of options including wide-screen television, digital transmission technology and high-definition, cinema-quality pictures. The choice is a complex one because the options are not mutually exclusive.

In Europe, the priority in the action plan is to promote a shift towards broadcasting normal definition TV on wider screens. The proposed EC plan would not tie the industry to any particular transmission technology. Britain is blocking agreement on the plan because it believes the proposed funding – down from the original Ecu850m to Ecu228m – is still too lavish.

Meanwhile, in Japan, HDTV has arrived, using existing analogue technology. But the price of HDTV receiver sets has only just come *down through the symbolic Y1m* (£6,250) mark, and programming is both scarce and bland.

Greater strides have been made in the US, where three rival consortia agreed three weeks ago to club together and work on a single technical standard for digital HDTV. But there are substantial technical difficulties to be overcome before a working system is in place, and US television stations fear they will not be able to afford the equipment necessary to satisfy the manufacturers' desire for a high-quality system.

If mass-market, cinema-quality television still seems a long way off, manufacturers, broadcasters and governments appear to have learnt from both the mistakes and breakthroughs of the past decade and are working in far greater harmony than the surface turbulence would *suggest. Moreover, after seven* years spent focusing on the potential of higher-definition technology, they have begun to turn their attention to what consumers actually want from television services – better quality, greater choice, or a combination of the two – and how much they are prepared to pay for them.

The trigger for the new debate is the arrival of digital technology, and its extension to television transmission. Digital compression techniques enhance quality and allow far more services to be provided on the same channel. Digital could, for example, permit broadcasters to stagger the start-times of the same film on a movie channel, giving viewers the choice of when to start watching.

Digital HDTV has the further *advantage that it* can be broadcast terrestrially, as well as by cable and satellite, like existing TV.

Moreover, the opportunities provided by digital appear to have united old rivals and put paid to Europe's efforts to gain a competitive advantage by setting exclusive HDTV standards – an outcome the European Commission has now accepted.

In the US, for example, the Federal Communications Commission, which has to approve an HDTV standard, was originally considering proposals from US, Japanese and European companies. The Japanese analogue proposal was eventually eliminated in February when it became clear that the FCC wanted a digital standard. The "grand alliance" formed last month includes both Philips and Thomson Consumer Electronics, the Dutch and French electronics groups which were supposed *to* be among the principal beneficiaries of the EC's original HDTV strategy.

	Germany	France	UK	TOTAL
Respondents preferring wide-screen: premium prepared to pay				
The same or less than conventional set	13%	23%	24%	20%
+12% premium	7%	16%	3%	9%
+13% to +30% premium	25%	34%	46%	35%
+31% to +50% premium	25%	6%	21%	22%
+51% premium	18%	12%	7%	12%
Main reasons for preferring wide-screen				
Better for watching films (more like a cinema)	67%	43%	56%	55%
Better picture (quality and size)	42%	66%	53%	54%
TV more attractive	33%	12%	4%	16%
Potential drawbacks to wide-screen				
Living room too small	51%	46%	17%	38%
TV set too large	14%	29%	49%	30%
Distorted picture	16%	17%	5%	13%
Poor quality picture	19%	3%	5%	9%
Price	8%	3%	5%	5%

Meanwhile, the European Commission, EC governments and industry have given new impetus to the co-ordination of digital research and standardisation. A group set up *by Germany's posts and telecommu*nications ministry is aiming to promote the acceptance of a draft digital standard for ordinary, non-HDTV broadcasts by the end of 1993 and for digital satellite and cable transmissions in Europe as early as 1995.

The highly damaging failures of the EC's HDTV legislation in the 1980s are still fresh in the minds of the German organisers. The EC's first efforts to develop an analogue HDTV system were undermined when commercial broadcasters and satellite operators avoided the EC's compulsory transmission standards by transmitting from satellites not affected by the EC legislation. As a result, equipment manufacturers, which had invested heavily in the EC-backed technology, found there were no services for the sets they had developed.

Work on digital technology should dovetail with the Community's action plan – if it is ever adopted

This time, the digital group is trying to encourage co-operation between satellite operators, commercial and public broadcasters, manufacturers and national administrations from the outset. In a recent press release the group stressed *that it wanted to* "address the needs of European viewers and to proceed with a fully market-led approach".

"We have to investigate the needs of the user, and learn from the experiences of Mac [the earlier EC HDTV standard]," says Mr Wolfgang Becker of the German telecoms ministry. "What do the users want, and what are the broadcasters and [manufacturing] industry going to do about it?"

Among EC companies, there is cautious optimism about the work of the digital group. Mr Yves Feltes of Société Européen des Satellites (SES), one of the pioneers of the standard-quality satellite broadcasts, says SES will be in the vanguard of digital transmission, although it is too early to say whether the co-ordinated approach will work. "At least this time, the major players are talking to each other," he points out.

Consequently, work on digital technology should also dovetail with the EC's action plan – if it is ever adopted. It would fall to the European Commission to marry the two elements, when it comes up with a formal digital television strategy in the autumn. The aim of EC funding is to stimulate new wide-screen services, thus boosting *a consumer electronics market* which the Commission believes will eventually be interested in everything that digital HDTV has to offer.

As far as the US challenge is concerned, the involvement of Philips and Thomson in the grand alliance, the efforts of the European digital working group and the development of wide-screen television sets in the EC indicate that efforts on both sides of the Atlantic should complement rather than conflict with one another. Philips, for one, says its experience with the US grand alliance will be of use in developing a European digital strategy through the working group.

A digital HDTV standard developed by the US grand alliance is unlikely to become the global standard because of technical differences between European, US and Japanese broadcasting infrastructure. But, according to the European Commission and to the EC companies involved in the US effort, there are important elements that will be common to both.

The question is whether consumers in the US, Europe and Japan will want to invest in wide-screen and *digital broadcasting* – with its promise of greater choice and such innovations as "interactive" video. And, if they do buy the decoders necessary to receive the new channels, will they then be interested, as the European Commission believes they will, in upgrading to a higher-definition, cinema-quality picture sometime in the next century?

According to a recent consumer survey in the UK, France and Germany by BIS Strategic Decisions, an information technology consultancy, wide-screen TV was preferred to conventional TV by a margin of 56 per cent to 40 per cent. About two-thirds are in favour in France and the UK, with a 60:36 ratio against in Germany.

The supposition that, without a hand-out, broadcasters will not film and broadcast in wide-screen format is debatable

Those favouring wide-screen gave as their main reason that it was better for watching films. The size of the set and picture quality were the main reasons against.

On price, although three-quarters of consumers favouring wide-screen format were willing to pay more for the new sets than for conventional sets, barely one in three – that is a fifth of *all consumers* – was prepared to pay more than a third more.

However, says Mr David Mercer, an analyst at BIS: "That still means there are millions of people across Europe prepared to pay more for wide-screen, even before enhanced technology."

He believes that, once wide-screen has been launched and marketed as "home cinema", prices will begin to fall and more people will want to buy it.

The retailers see it that way, too. If the EC package goes through, Dixons, the UK retailer, hopes to have "affordable" wide-screen sets in its shops by the autumn of 1994. It expects a 25-inch wide-screen format – the replacement for the 21-inch conventional screen most common in the UK today – to retail for about £1,000, coming down to the equivalent of today's £650 within two or three years.

"The TV market is mature and needs new products," says Mr Roger Salmons, Dixons' group planning director. "Wide-screen is the next major product on the horizon. Once consumers have made the step up, and manufacturers have brought the price of wide-screen down, the introduction of HDTV ought to be commercially viable when it becomes available."

Manufacturers are equally confident of their ability to cut the cost. "Prices will be quite high for the first generation but, *once we have an agreed stan*dard [for wide-screen transmission] and volumes rise, the only cost over and above the current technology should be the size of the larger screen," says Mr Robert van Oostenbrugge, manager of Philips' broadcast media division.

That leaves the broadcasters. Most of the EC's Ecu228m, plus an additional amount which the industry or national governments may be obliged to provide under any final agreement, is a sweetener to encourage them to produce programmes in a format compatible with wide-screen.

The supposition that, without a hand-out, the broadcasters will not film and broadcast in wide-screen format is debatable.

Mr Chris Daubney, chief engineer at Channel 4, the independent UK broadcaster, claims that there is "no obvious revenue to be gained from going to wide-screen, but there are certain capital costs – studio equipment and so on – for which we would like compensation".

On the other hand, Mr Barry Cox, director of corporate affairs at London Weekend Television, says bluntly: "We will need to go wide-screen anyway if the market is going that way. But if the Commission is putting up the money, of course we will apply."

In fact, the costs involved do not appear to be enormous: observers put the total charge to the UK broadcasting industry at less than £100m.

There is also no question of broadcasters shifting all their production to wide-screen in one go. The impact on existing small-screen users, who will very likely have to make do with unattractive "letter-box" reception of programmes shot for wide-screen, will initially keep it restricted, probably to films, sport and drama.

The path ahead is still far from straightforward. Even if agreement is reached today on a funding package, the debate continues between proponents of two alternative means of proceeding to wide-screen at "standard" definition.

Some of those involved want to proceed as soon as possible with the so-called "PAL-plus" system, which enhances the existing signal sufficiently to take wide-screen; others want to wait until digital is available. The industry could end up moving from one to the other.

Finally, of course, comes the consumers' actual readiness to buy the new sets. Expect some cultural differences. According to the BIS survey, by far the largest objection to wide-screen in the UK was from respondents fearing that the screen was too large; by contrast, the French and Germans, given the same options, were mainly afraid that their living rooms were too small.

Compelling subject for a documentary, perhaps.

OBSERVER

Ex-Governor for hire

■ With only a fortnight to go before the newly-ennobled Robin Leigh-Pemberton hands in his keys as governor of the Bank of England, it is far from clear what he is going to do next. He has had a good innings at the Bank and as a fit 66-year-old he has a few years service left in him.

If he should run short of job offers he could always seek advice from his old chum and long-time Bank director, Sir Adrian Cadbury, whose ProNed body specialises in finding non-executive directors *for tough* jobs. But it is unlikely to come to that. Before he became a central banker, Leigh-Pemberton had been chairman of a clearing bank (NatWest) and an industrial company (Birmid Qualcast).

The Fed's Paul Volcker and the Bundesbank's Karl Otto Pöhl, have had no difficulty collecting an impressive portfolio of directorships when they stepped down. Neither should Leigh-Pemberton.

However, there is one particularly delicate matter which needs to be resolved. Leigh-Pemberton is one of two Brits on the board of the Bank for International Settlements, the central bankers' talking shop. The other is his predecessor, Lord Richardson, who has just been re-elected for a further three-year term. Eddie George gets a seat automatically. But will Lord Richardson do the decent thing and give up his place. After all Lord O'Brien did the same for Richardson when he quit the Bank in 1983.

Mental aides

■ Sir Charles Powell, once the most feared civil servant in Whitehall, has enlisted the aid of his old mistress, Lady Thatcher, to launch an appeal to finance research into schizophrenia.

Sir Charles, who forsook the intrigues of Downing Street for the more civilised world of big business, is leading an effort by the Mental Health Foundation to find a cure for one of the world's most serious but incurable illnesses. Observer can think of no better cause for a re-union of one of Downing Street's most famous teams.

Visa problems

■ It appears that Britain may have gained a slight diplomatic advantage over the French with the victory of Chief Moshood Abiola in Nigeria's presidential elections.

Abiola, who made his fortune selling telecommunication systems to the Nigerian government in the 1970s, has close ties with Britain. He owns the London-based African Economic Digest and is a frequent visitor to the city. However, Observer hears that France's corps diplomatique may need to mend *a few fences*.

'Who is Terry Venables?'

The problem dates back to Abiola's application for a visa to visit France three years ago. After some delay, the chief's personal assistant went to the French embassy in Lagos to complain. Embassy staff, who had not heard of the great man, demanded Abiola provide a return ticket before issuing the visa. "Chief Abiola does not need a ticket," the assistant explained.

"*He has his own plane.*"

Disconnected

■ So all publicity is not necessarily good publicity, after all. In addition to Michael Mates, it would seem that Christopher Morgan, the PR man at the centre of the row over political intervention in connection with Asil Nadir, had another good buddy who was also a Hampshire MP. In the register of members' *interests, Gerry Malone, the* clubbable Conservative party deputy chairman, has listed Morgan & Rogerson as a client.

The Winchester MP, who says "Christopher was and is a personal friend", explains that he ended the formal relationship at the end of *May because of mounting political* commitments.

Fighting fit

■ As the smoke starts to disperse over the Tottenham Hotspur Football Club battle ground, the casualty list does not appear to be quite as long as expected.

General Portfolio, the Harlow-based insurance company, for example, reports that it has not been damaged by events. It will continue to flog insurance policies to Spurs supporters for another 14 months at least, even though the deal was set up by ousted chief executive Terry Venables.

Venables did the deal with GP because he liked the look of its *national sales director*, Bob Patmore, a former star of the Tottenham youth team. But GP spokeswoman Valerie McKirdy stresses that it had not been a personal deal but a three-year agreement signed with one of the Tottenham Hotspur companies.

"We are certainly not aware of anything to suggest that the agreement is not continuing," she says.

To be fair, GP is quite practised *in dealing with the sensibilities* of new owners. A wholly-owned subsidiary of a French company, it continues to use a logo of the Duke of Wellington.

Same old story

■ *It might be out of bounds and* a soft target. But Kamlesh Bahl, who took over as boss of the Equal Opportunities Commission yesterday, has already fired off a stiff letter to one of the dustier corners of the British establishment which still discriminates quite openly against women.

Ms Bahl says she was humiliated last week, when meeting a friend at the Oxford and Cambridge Club in London's Pall Mall, to discover that, as a woman, she had to wait downstairs for her male escort and, later, could only drink her coffee in a certain corner of the building. Sadly, says Ms Bahl, the EOC is powerless to do anything about private clubs, such as the Oxford and Cambridge, which still bar women from full membership.

Once again

■ Why did Lady Thatcher come out so strongly in support of John Major? The answer is as easy as ABC.

Anybody But Clarke.

Banker to the bankers

Robert Peston on a powerful and secretive institution

On the second Tuesday of every month, 13 central bankers meet in the sleepy Swiss town of Basle to review the monthly accounts of the Bank for International Settlements, one of the world's most powerful and secretive banks. The general manager, Mr Alexandre Lamfalussy, admits that the gathering, in the bank's nuclear-attack-proof 1970s headquarters, is usually a formality and rarely last more than 15 minutes.

The bankers say their main reason for the trip is for the other meetings held there, during which they discuss weighty issues of monetary policy and the health of the financial system. However, the 15-minute meetings are crucial since the revenues from the bank pays for all the other activities and the sumptuous meals and rural excursions that make the sojourn more pleasant.

The BIS set up in 1930 to recycle German first world war reparations back to Germany as government loans, is, in the words of Mr Lamfalussy, a mixture of arcane traditions and banking strength. But it has come to play a pivotal role in the world's financial affairs, through a combination of secrecy, financial strength and technical expertise.

Tucked away at the back of its latest 230-page report on global monetary conditions and international banking supervision, are the balance sheet and profit-and-loss account. They show that last year the BIS paid a record SFr240 dividend from record profits of $271m, while its balance sheet expanded at an unprecedentedly fast rate.

The location of the figures reflects the banking department's shy public posture. The BIS is the central banks' bank – 84 per cent of its shares are owned by 33 central banks, with the balance held by private shareholders – and the glare of the limelight would not be conducive to its business.

"The main banking activity of the BIS is to help the reserve management of central banks," Mr Lamfalussy said. This means that central banks place substantial amounts of their foreign exchange reserves with the BIS, normally on very short-term deposit. "Between 85 and 90 central banks deal with the BIS," he added.

"Our share in world foreign exchange reserves is normally around 10 per cent." At the end of March, the BIS held $106bn of deposits from central banks – 60 per cent in dollars – 28 per cent more than the previous year.

According to Mr Lamfalussy, the BIS's success stems from its liquidity and its discretion. When there is uncertainty in foreign exchange markets, central banks need to know they have instant access to their reserves, in case they have to intervene in the markets. "If a central bank rings up at 4pm and asks for $2bn, we can give it to them immediately," Mr Lamfalussy said. "No other bank can do that."

The BIS's financial skills and liquidity were tested as rarely before during the instability which rocked the European exchange rate mechanism last year.

'If a central bank rings up at 4pm and asks for $2bn, we can give it to them immediately'

European central banks sold an estimated DM188bn between June and December in an attempt to reduce upward pressure on the D-mark. Most of the sales were for dollars.

At the height of the crisis, between August and the end of October, central bank deposits at the BIS increased by almost $27bn. If central banks had placed these funds directly into the money markets, speculators would have found it even easier to work out what the banks had been up to.

The BIS also lends to central banks in an emergency. Mr Lamfalussy hinted that central banks whose D-Mark reserves were running low because of sales of the German currency, may have borrowed some from the BIS during the ERM debacle, before rebuilding reserves through a bond issue or currency swap.

He added that the BIS pays an interest rate on central banks' deposits below commercial bank rates but above treasury bill rates (government-issued securities). It then makes a small profit by placing these funds on deposit with the most financially secure commercial banks or in government securities.

Central banks accept a low rate of interest because of the BIS's balance sheet strength, which guarantees the security of their deposits. But assessing its net worth is complicated: it admits using unusual accounting techniques and undervaluing and hiding some of its assets.

The BIS has built up gold and currency reserves worth $4.3bn, expressed in the quaint convention of gold francs, a monetary unit invented by the BIS and used exclusively by it. When translating currencies into gold francs, the BIS uses a fixed gold price of $208 an ounce, well below the current market price of about $365, which means that one gold franc is equivalent to $1.94.

At the end of March, the BIS's published capital and reserves in gold and currencies were GFr1.75bn (or $4.3bn). But several more calculations are required to arrive at a more accurate measure of the bank's financial strength. As Mr Lamfalussy said, its assets are "substantially more than that".

One disguised source of wealth is its "miscellaneous account", an unusual balance sheet classification. Unrealised gains and losses on its holdings of currencies and securities are taken through the miscellaneous account, which stood at the equivalent of $2.9bn at the end of last year. Many banks would include all of that in their capital and reserves. In addition, the BIS owns and occupies a 21-storey office block in Basle, and owns several acres of prime property around it. This is all valued in its balance sheet at GFr1.

Total net assets could be as high as $9bn. Even though central banks and shareholders recognise that its strong balance sheet is the key to its ability to do what they want, they cannot help casting a covetous eye on the gold, cash and real estate. Some central bankers believe BIS is over-capitalised and should perhaps return part of its capital to its shareholders in the form of a special dividend.

Such a suggestion is anathema to Mr Lamfalussy. The BIS, he said, must have sufficient capital to borrow and lend billions in the time it takes for a central bank governor to raise his eyebrow.

A verdict but no conviction

A review of the English criminal justice system is unlikely to fulfil expectations, says **Robert Rice**

Judgment time: Lord Runciman (right) studied wrongful convictions, such as the Birmingham Six's

In three weeks, the Royal Commission on Criminal Justice will deliver its verdict on the health of the English criminal justice system.

Set up two years ago after a series of miscarriages of justice, the commission, chaired by Lord Runciman, was charged by the government with carrying out the most far-reaching review for more than 100 years.

The legal establishment hopes not only for a report that could help restore public confidence, but for a blueprint for the next century. "The judiciary has the highest expectations," according to Lord Taylor, the Lord Chief Justice.

But doubts have surfaced about what the report will achieve. Many lawyers believe that, by tackling everything from police investigations to the problems of long fraud trials, the commission will not have had enough time to examine the issues – some far from clear cut – in depth.

Lord Williams of Mostyn, QC, last year's bar chairman and Labour's legal affairs spokesman in the House of Lords, says it is a "watershed". But he has doubts about what it can accomplish: "I hope to goodness they've had enough time."

The political impetus for change has been the need to restore confidence in English justice. But the government's hands will be tied both by public spending contraints and competing political priorities.

The best hope for concrete proposals is on the question of miscarriages of justice. Studying the events arising out of the IRA's 1974 mainland bombing campaign should have enabled the commission to identify several factors that contributed to the wrongful convictions of the so-called Guildford Four, Maguire Seven and Birmingham Six.

The commission is likely to recommend the creation of an independent tribunal to take the investigation of suspect cases out of the hands of the Home Office. It is also expected to recommend the establishment of an independent forensic science service, to give the defence access to forensic facilities enjoyed only by the prosecution at the moment.

Such firm recommendations are, however, likely to be the exception rather than the rule. Much of the evidence received by the commission has been conflicting.

Disputed confessions, for example, are central to most alleged miscarriages of justice. A change in the law, to prevent a defendant from being convicted on a confession unless it is made in the presence of an independent third party or supported by other evidence, would seem an obvious recommendation.

Yet this has proved a controversial area. The commission found that, in nine out of 10 cases in which confessions were central to a case, there was corroborative evidence. In the remainder, the police could have produced it if needed, but had chosen not to in order to save time and money. This, say some, shows that a requirement to produce corroborative evidence in all cases is an unnecessary expense; others say that, if corroborative evidence is available in most cases, the police should be required to produce it.

While high-profile issues such as ways of preventing miscarriages of justice are expected to lead to firm recommendations, the bulk of the report is likely to concentrate on cutting costs and increasing efficiency. It will also have to tackle the delicate question of the balance between the powers and rights of prosecution and defence.

Mrs Barbara Mills QC, director of public prosecutions, believes the best way to cut costs is to reduce the number of cases that go to the Crown Court for jury trial. She has urged the commission to recommend the abolition of the defendant's right to choose jury trial for offences that can be tried either by magistrates or in the Crown Court.

Of the 120,000 cases committed by magistrates to the Crown Court each year, about 35,000 end up there because the defendants have elected jury trial. The average daily cost of a Crown Court trial in 1992-93 was £6,850. The costs of a trial in a magistrate's court is estimated at less than half that figure.

However, the DPP's proposal is unlikely to find favour with the commission, mainly because the right to be tried by one's peers is strongly supported by the judiciary. Lord Taylor calls it "an inalienable right going back to Magna Carta".

Mrs Mills can expect more support for her call for a formal system of plea bargaining, where an accused can secure a lighter sentence in return for a guilty plea.

At the moment, guilty pleas do generally lead to reductions in sentences, but the process is informal and arbitrary. The prosecuting authorities, judges and the bar want an open system, under which defendants are guaranteed a sentence discount for a guilty plea secured at the earliest opportunity.

The DPP sees plea bargaining as the best means of tackling the waste caused by "cracked trials" – trials that are aborted (and move immediately to sentencing) when the defendant changes his or her plea to guilty at the last minute. In such cases, all parties will already have prepared for a full trial.

Some 70 per cent of defendants committed by magistrates to stand trial on a not-guilty plea change their plea to guilty at the Crown Court. About a third of them enter a guilty plea on the day of the trial or just before, causing a cracked trial.

Lord Mackay, the Lord Chancellor, leads the government's support for formalised plea bargaining. Mr George Staple, director of the Serious Fraud Office, sees it as the solution to problems of long and complex fraud trials. "By avoiding the contested trial, with all that it implies in terms of expense and time and manpower, a plea of guilty is the single most effective means of shortening the process," he says.

But Lord Roskill, the former law lord who chaired the 1986 Fraud Trials inquiry, is opposed to formalised plea bargaining: "The real objection is that it enables people to buy themselves off."

He is also concerned that plea bargaining may induce the innocent to plead guilty or feel there is pressure on them to do so. The result could be to encourage miscarriages of justice. This concern is shared by Justice, the law reform pressure group.

A further difficult question for the commission is how to correct the perceived imbalance between prosecution and defence: protecting the rights of the defendant while ensuring that the prosecuting authorities have the armoury to bring the guilty to justice.

Many judges, including the Lord Chief Justice, believe the odds are weighted too heavily in the defendant's favour. Few defence lawyers agree, although the opinion of the judiciary may carry more weight with the commission.

Some inroads are likely into the defendant's right to silence: the right not to say anything in his or her defence, either to the police or in court. The central issues are whether the court should be able to draw inferences from an accused's failure to explain alleged criminal conduct before trial, and whether the so-called "ambush defence" – where an accused remains silent throughout an investigation but offers an explanation at trial, taking the prosecution by surprise – should be outlawed.

The commission's research found that silence may have hampered the conviction of the guilty in only 2 or 3 per cent of cases. Nevertheless, the number of people who argue that the innocent have nothing to hide by giving an explanation is growing.

The commission will probably recommend that the defence be required to disclose its case early in the pre-trial proceedings.

Controversy over this and other issues, coupled with the government's apparent reluctance to see radical reform of the system now, mean the commission will not produce the hoped-for blueprint.

Mr Kenneth Clarke, the former home secretary, has indicated the government intends to treat the report as a consultation exercise. If it accepts the commission's ideas, further detailed study of the practical implications is likely before any legislation.

With the recent climbdown over a means-related fines system (withdrawn in May after only seven months) fresh in the memory, the government will not be rushed into action.

Two years ago radical change seemed imperative. Now any reform looks likely to be at the margin.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

IoD presses case for independent bank

From Mr Peter Morgan.

Sir, Having campaigned for more than a decade for an Independent Bank of England, the Institute of Directors is encouraged that the advantages of this ultimate privatisation are becoming accepted wisdom among a wider range of influential figures – not least the former chancellor of the exchequer and his predecessors – to whom we have made repeated representations.

The government is naturally wary of relinquishing its hold over one of the levers of economic control, and claims that an independent central bank could not have brought down inflation more quickly than the government. Yet inflation would not have risen to such a high level and wrought so much damage on the economy and business so frequently, had the Bank of England been able to operate a rigorous anti-inflation policy.

The objectives of an independent bank should be set by parliament, to which it should be accountable, openly and in detail, for the discharge of defined and limited responsibilities.

The Bundesbank and the Reserve Bank of New Zealand provide interesting precedents. Within these parameters the Bank would be free to operate in the best interests of the economy rather than for the benefit of political parties influenced by party politics and the electoral cycle. Given the uncertainty surrounding the exchange rate mechanism and European monetary union, the best signal the government could give to our European partners and financial markets of its commitment to low inflation and sound money is to grant independence to the Bank of England.

Peter Morgan,
director-general,
Institute of Directors,
116 Pall Mall, London SW1

Forecasts

From Mr Roland Davis.

Sir, Gordon Mitchell (Letters, June 14), invites the Financial Times to publish forecasts of share prices. But that is exactly what the FT does. Need I remind him that in the absence of non-public information the best forecast of tomorrow's price is today's price?

I hope Mr Mitchell is not wasting his money trying to guess which companies will outperform the market. Nobody should be picking individual shares now that the superiority of a diversified portfolio is well-established.

Roland Davis,
Woodcot,
Brook St,
Cucksfield,
W Sussex

Karadzic talks peace but killing goes on

From Mr Bernd Karl,

Sir, It must be the climax of western perversion that after the complete failure of our politicians to stop the killing in Bosnia that the Financial Times should give Mr Radovan Karadzic, the Bosnian Serb leader, a chance to publish an article (Personal View, June 9).

How can one dare to give a war criminal such an opportunity, given the the reality of the past 14 months of killing, torturing, raping and ethnic cleansing, mostly by Serbs. Do you really believe this is the way to prove our democratic system? The Serbs must be laughing.

A meeting in Luxembourg of foreign ministers of the EC is followed by a meeting of the Nato foreign ministers making all the well-known declarations. Meanwhile, the Serbs are closing in on Gorazde and are using captured Moslems as human shields while advancing on the town – and Mr Karadzic in his article is talking about peace. I am completely puzzled about what you intended by publishing the article.

I must be very naive to have believed that the news media, and especially newspapers, should have played a more forceful role in condemning the inaction of our European politicians. The article you published is just doing the opposite.

I still cannot understand how we have allowed these crimes to be committed after the atrocities of the Germans during the second world war. We witness them every night on TV and yet the world looks the other way. I am deeply disappointed that you chose to publish the article. Who other than a courageous press should point out the bigotry and hypocrisy displayed by the "civilised" western world in the Bosnian conflict?

I have just heard on the radio that Serb forces are attacking three "safe havens" – Zepa, Gorazde and Srebrenica. And Mr Karadzic talks of peace.

Bernd Karl,
Wilhelm Hey Str 14,
8000 München 60,
Germany

Whistle stop

From Mr Guy Dehn.

Sir, Your article about the organisation Public Concern at Work, headed "Solicitor launches group to protect whistle-blowers" (June 14), is premature and somewhat inaccurate.

We have not been formed to protect "whistle-blowers – employees who disclose confidential information in what they judge to be the public interest". Rather our object is to develop alternatives where employee concerns about public dangers are first raised and addressed within their organisation.

When we launch in the autumn, all will be clearer.

Guy Dehn,
barrister,
Public Concern at Work,
Lincoln's Inn House,
42 Kingsway,
London WC2B 6EN

Amnesty report on women in Tunisia baseless

From Mr Mohamed Lesser.

Sir, With reference to your summary of the Amnesty International report on women in Tunisia ("Amnesty says women tortured in Tunisia", June 3), I wish to state the following.

The report is totally irresponsible and completely without foundation. It is based almost entirely on the content of propaganda leaflets from illegal extremist groups whose declared objective is to undermine the Tunisian government. Therefore, we reject and deny its allegations, most of which have been refuted in previous government responses while others pertain to women who have been subjected only to measures authorised by law. They have never been maltreated, tortured or been the victims of any other form of abuse.

Other testimonies contained in the report were given by women whose identities were not revealed, but who belong to two extremist movements, both of them banned. Amnesty has repeated and endorsed the allegations but, under the pretence that it is fearful of reprisals, has not checked any of them through the usual procedures. This pretence is intended to harm Tunisia's reputation and undermine its judiciary. Also, no prior notice about the report was given to the Tunisian government as is usually done by Amnesty.

It is ironic that Tunisia, of all countries, should be singled out for criticism in connection with women's rights when the country is widely acknowledged to have achieved more progress in that area than any other country in the developing world and is often called upon to chair human rights committees in regional and international forums.

Tunisia has in the last few years signed and ratified the UN convention against torture without reservations and has set up a higher committee for human rights and fundamental liberties, and a commission of inquiry into earlier allegations received from Amnesty. The president of the republic has also nominated a counsellor for human rights while units were set up in various ministries to deal with human rights. Furthermore, an ombudsman has been appointed with a full team to support him in his job.

All these measures testify to the strong commitment of Tunisia towards human rights.

Mohamed Lessir,
Ambassador of Tunisia,
29 Princes Gate, London SW7

Television/Christopher Dunkley

Everybody seems to be 'morphing'

Remember Murray Mints, the too good to hurry mints? We're going well, we're going Shell? Wondering where the yellow went when you cleaned your teeth with Pepsodent?

How straightforward matters were in the days when television commercials were simply supposed to sell things. Now bafflement is the order of the day and smart references to famous movies or previous commercials are de rigueur. You see a picture of a man with a bird cage on his head, and then a woman with a model of a Richard Rogers building in her hair. A grand piano falls in slow motion from a high bridge. The picture cuts rapidly from a human skull with smoke emerging to a sinister bald black man wearing a patent leather corset as he sits in front of a navy blue sky. Big ball bearings whiz through the air.

What on earth is being advertised? A dungeons and dragons computer game? A new pill to banish nightmares caused by Gorgonzola and gherkin sandwiches? We hear what sounds like David Bowie singing as events become even more obscure: three creatures, part animal, part human, wade through a river, bending as though to look for something under the water. An old man is seen, covered in gold paint. A car drives through water sending up a huge sheet of spray. A head appears in a black leather sado-masochist's mask bristling with metal spikes and with a zip across the mouth. Finally comes the sales pitch, written round a rubber tyre: "Tested for the unexpected, Dunlop".

Had this been produced as a show reel by a student on a mass media studies course we would have said it was technically competent but derivative in rather too studied a manner: it echoes every overdone rock video from "Relax" to "Justify My Love" and on the way borrows from every mass media fashion from James Bond to Derek Jarman. The mystery is why anybody imagines it might sell car tyres.

The commercials for the current British Telecom share sale are not baffling but they, too, are full of references to other trendy mass media material; indeed they consist entirely of parodies of *Inspector Morse*, with Mel Smith as John Thaw. It is fairly funny to have the Morse figure bustling into the manor house and ignorantly blowing away the forensic man's fingerprint powder, or using a megaphone from the top of an Oxford tower to tell his people on the ground to "Grab that one, the one in the gown, no not *that* one in the gown . . ." and so on. But again the question arises, why anybody thinks that this is the best way to sell the product. Why not tell us something about the advantages of owning BT shares? The amount of information conveyed in these commercials is startlingly small.

Do you understand the Toyota Celica commercial? Two pantomime Italian policemen pull into a petrol station which, instead of an Italian sign saying "Gasolio", has a huge American sign saying "Gas". They peer admiringly into an empty right hand drive Celica. An attractive girl walks up and climbs into the left hand seat. The driverless car magically moves off and the police follow. We see that the Toyota has a British number plate and has somehow acquired a second person, in the driving seat. The police pull out to overtake, the Toyota disappears, then reappears going in the opposite direction, and a voice says "The car in front is a Toyota". But of course by this time there is no car in front, only a car behind. What on earth is it all supposed to mean and why does anyone imagine it might sell us a Celica?

These are not isolated examples, dredged up from remote parts of the schedules. On the contrary, they are some of the most frequently repeated commercials presently appearing on ITV and Channel 4, and there are plenty more like them, where mystification seems to be paramount. Since all cars now have adjustable seats, glove compartments, handbrakes and windscreen wipers, and many have cassette players, Volkswagen cannot be trying to use these as unique selling points. So just what are they doing in the ad where the woman pulls the seat forward, stuffs the sweets in the glove compartment, takes off the handbrake, puts on the windscreen wipers and rejects the cassette only to be followed by a man who pushes the seat back, takes out the sweets and so on? Why do the man and woman in the Pirelli commercial swap seats and why isn't he allowed to sit beside her? Why does the second blues musician in the Heineken ad fall through the verandah floor: does this beer no longer reach the parts that others cannot reach?

Commercial breaks appear to be devoted to directors who would rather be producing rock videos

The more carefully you watch the commercials, the more powerful becomes the feeling that many of them are now being made by people who are more concerned with the furtherence of their own careers than with sales of the products. Perhaps this is not surprising, given the fame of men such as Ridley Scott whose progress from Hovis ads to *Blade Runner* has been told so many times that most of us can recite it. However, there does appear to have been a sea change. In Scott's day television commercials were at the forefront of innovation: you could trace the introduction of new techniques from commercials to Hollywood and then into the mainstream of television. Today the innovations seem to be coming from rock videos and Hollywood, moving into commercials and then spreading elsewhere.

"Morphing" is a good example. This trick, in which a computerised dissolve is used to give the appearance of one thing literally turning into another – metamorphosis – first appeared in rock videos just over a year ago (notably Michael Jackson's last major offering), was then used extensively in *Terminator II*, and is now unavoidable in the commercial breaks. From Andersen Consulting where a snail turns into a frog, via Castrol GTX where an Aston Martin turns into a Vauxhall, then a Land Rover and so on, to the BBC's latest house commercial in which John Humphrys, Lenny Henry and Kate Adie rapidly turn into one another, everybody seems to be morphing. No doubt television programmes will soon discover the technique and overwork it until it becomes a cliché.

There are still enjoyable commercials with beer, as ever, providing a lot of the laughs, many of them, once again, depending upon knowing references to previous commercials. In Boddington's current campaign the lady goes through the old Camay routine, dabbing her cheek with "lather" (foam from the head of the beer) and being told by her man "By 'eck, you smell gorgeous tonight petal". Green King has hired the chap who used to tell us that he liked his Remington razor so much he bought the company and got him to say "I had a taste of Green King IPA and liked it so much – I bought a pint". Meanwhile, in the background, two men shave themselves with electric razors. Panasonic has a wonderful ad in which a very old lady extols VHS video cameras . . . with help from her mother.

But this is about as close as you come today to a simple sales pitch. The great bulk of any commercial break nowadays appears to be devoted to auditions from directors who would like to be working for rock video producers, or who are already doing so and would now like to move on to Hollywood. It makes for some amazing technical trickery, and some fascinating virtuoso passages of film making. Whether it increases sales of sweets, petrol or toothpaste as effectively as the old jingles and pack shots is a different matter entirely.

Lunch with Mr Bloom

Alannah Hopkin celebrates 'Bloomsday' in the Dublin Castle Crypt

Ulysses turns into a spectator sport in Dublin this time of year as the celebrations of June 16 – "Bloomsday" – on which the events of James Joyce's novel took place – become ever more prolific. How refreshing, then, after innumerable Molly Bloom soliloquies (*. . . and yes I said yes I will Yes*) to have a dramatisation of Chapter Eight, chiefly remembered as the chapter in which Leopold Bloom, after some prevarication, partakes of a Gorgonzola sandwich and a glass of burgundy in Davy Byrne's bar.

This chapter does not immediately call out for dramatisation. Nothing much happens. Bloom, hungry in spite of a now legendary breakfast, having attended Dignam's funeral, walks by the Liffey towards the Grafton Street area knowing that Molly has an assignation with her lover, Blazes Boylan, and afraid of meeting the latter face-to-face. He is distracted by the gulls and buys two Banbury cakes for a penny to feed them. He passes the time of day with an acquaintance, Mrs Breen, is repulsed by the prospect of eating in the Burton restaurant, and settles for Davy Byrne's where he exchanges a few words with Nosey Flynn. After, on his way to the National Library, he does indeed catch sight of the dreaded Blazes Boylan.

Carey Harrison, who did the adaptation, must be given full credit for turning this unpromising material into a riveting hour of theatre while remaining remarkably faithful to the original. The cast of five occupy a central square in the low ceilinged crypt with the audience seated on two sides. Sean Tracey's direction makes the best of this limited space.

Just how popular Bloomsday has become can be judged by the fact that broadcaster Gay Byrne dedicated a good half hour of his weekday radio programme to an interview with Carey Harrison, and expressed some doubts as to how the son of Rex, and master of similarly cut-glass vowels, would manage Bloom's Dublin accent. Harrison pointed out that, through his mother, Lilli Palmer, he is every bit as Jewish as Bloom, and that in any case Bloom was a Hungarian Jew, not a native Dubliner. In the programme notes he excuses his height (just over 6ft at a guess) by pointing out that at 5ft 9ins Leopold Bloom was 5 inches taller than the average Dubliner of his day, and at 11st 4lb somewhat slimmer that the Bloom of popular imagination.

To see Bloom portrayed by someone as tall, slim and attractive as Carey Harrison gives a whole new dimension to Bloom's role as husband and cuckold. We have here a new Bloom. Harrison's portrayal brings out the thoughtful, humanitarian aspects of Leopold Bloom, making him more noble than pitiful, and putting Molly's dalliance with the bounder Boylan into a quite different light.

He opts for a neutral stage-Irish accent, which works well with the authentic Dublin accents of the supporting cast. Anne Kent as Molly Bloom, Mrs Breen and assorted voices sounds exactly right. Martin Dunne is an inspired Nosey Flynn; he, David Ganley and Frank O'Sullivan are versatile in their various supporting roles.

Theatre/Antony Thorncroft

'Ali': more Islam than ring craft

Ali, Geoffrey C. Ewing's one-man show which re-opens the Mermaid Theatre at Blackfriars, is described as a tribute to the former heavyweight boxing champion of the world. And there's the rub. Not only has this Ali a pretty face; his soul could hardly be bettered, too. He is your very Islamic Saint.

The set says it all. Ali, long retired, is talking to his people – the poor and the disadvantaged – in "an underfunded recreation room in a neighbourhood cultural centre in Detroit" in 1989.

He begins slow and hesitant. He is suffering from Parkinson's Syndrome, although Ewing suggests that Ali uses his illness to protect himself from pestering questions. Gradually as he responds to the audience his current disability is shaken off, and he returns to his youth and his prime, to his joy at winning an Olympic Gold Medal in Rome for the US and his disillusionment with his treatment back home as a black.

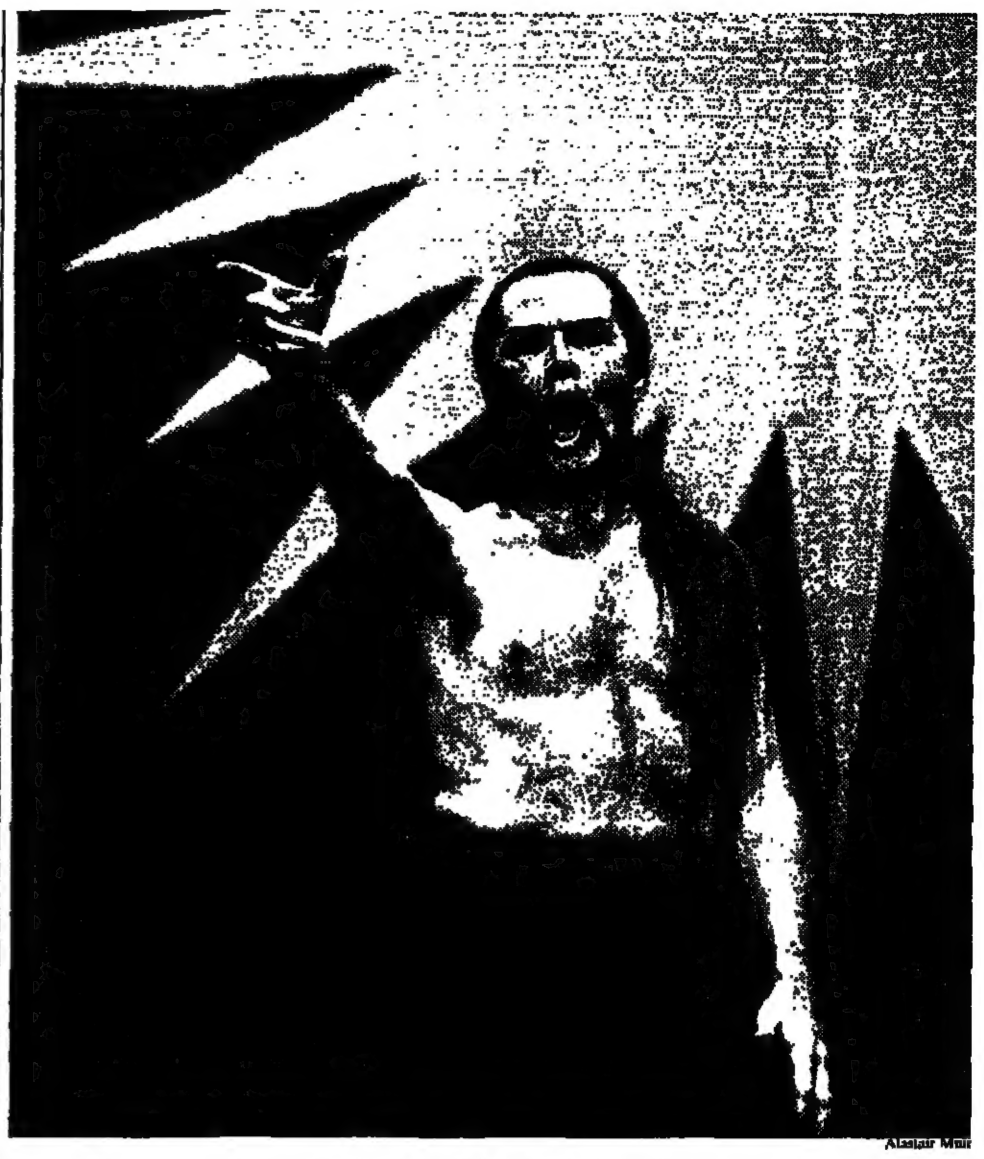
The formula is predictable but workmanlike. The problem is that none of the interesting bits of Ali's life are allowed to come between the man and his legend. There is not a critical word in the piece. His relationships with women might be considered to be, well, rather sexist, but here the wives are blamed for not becoming enthusiastic Moslems. The arrogance, the political naivity, the money making, above all the fascinating question of how much his illness can be attributed to blows in the ring, are ignored, as are his relationships with his nine children and his upbringing.

The consolation is that Ewing makes a sympathetic Ali. The physical resemblance is close enough, especially when he strips down to "float like a butterfly, sting like a bee". A ring dominates the set, and the piece takes off when the fights are re-created, especially the "rumble in the jungle" with Foreman and the "thrilla in Manila" with Frazier. But director Stephen Henderson's only dramatic effect comes in the fight with Holmes when Ali's nemesis as a boxer is conveyed through flashing lights and klaxons. Ewing seems much more interested in Ali's commitment to Islam than in his ring-craft.

Ali was undoubtedly terribly victimised by the government for his refusal to follow Presley into the Army for religious reasons, and this becomes the dramatic finale of the first half. But as the second half opens Ewing dodges this issue. "Why ain't I in gaol? Because I've got money".

Ali was a great success off-Broadway and will appeal to the *Ali* fan club. Boxing fans could be disappointed in the lack of real meat. Equally disappointed will be those who wanted the inside track on one of the most fascinating characters in 20th century entertainment.

Mermaid Theatre 071 410 0000



Samuel Ramey as Attila, deploying all his best strengths

Opera in London

'Attila' and 'The Flute'

As revived at the Royal Opera by David Edwards, Elijah Moshinsky's splendid Verdi production retains all the power it had in 1990. Verdi composed *Attila* some four years after *Stiffelio* (which Moshinsky staged triumphantly this spring), and four years before *Nabucco*. It counts unambiguously as "early Verdi", which most often means bald melodrama and stand-and-deliver arias. In that restricted style Verdi could already write potently expressive music, and sometimes break through the period routines; but his libretti and their schematic situations – which Verdi took quite seriously as his inspiration – now inspire only patronising attitudes.

Moshinsky's great practical gift is for forcing us, too, to recognise that those situations are serious at heart, at least as Verdi sets them; that the apparent veering between banality and lofty extravagance is only a matter of surface style, as in Handel's operas; that all those arias are human responses to grave circumstances, not mere operatic showpieces.

No doubt, early Verdi with exotic trappings like *Attila* – decadent 5th-century Romans fending off hell-bent Attila and his Huns – has looked ridiculous in revivals this century which tried to play him "naturalistically". Moshinsky's solution here is inseparable from Michael Yeargan's sets: stage-high wooden palisades parting at unpredictable angles to reveal ancient towns, mudflats and barrens, gloweringly lit by Robert Bryan. The time and the places are evoked palpably, but with a minimum of picturesque detail; and in those louring spaces, the performers can make their old-fashioned gestural semaphore tell.

As the posturing becomes transparent, we see through it to tribal loyalties, fraught personal trusts, voracious ambitions and old, inconsolable regrets for a "noble" world lost. (Verdi honoured all the Risorgimento ideals.) If almost every aria begins with either a rumpty-tum village-band flourish or a strummed harp – quite rightly, the conductor Edward Downes swings into those things with unabashed fervour – in this cleverly stripped-down context its vocal line soon says something sharper and more poignant. That needs a superlative cast, and again the Royal Opera have got one.

From earlier runs we have Giorgio Zancanaro again as the disillusioned, backward-looking Roman general Ezio, confounding the New Grove Opera diagnosis of his role ("vague and undefined") by a searching account of "Dagl'immortali vertici"; and as the romantically besotted Foresto, Dennis O'Neill – our best mock-Italian tenor, by a very long way – can at last marry his guilty hangdog look to passionate expression.

Above all, the new incumbents in the central roles serve Verdi's (and Moshinsky's) intentions with severe honesty. Elizabeth Connell's Odabella, reeling between Italian patriotism and Attila's macho appeal, wields all the requisite vocal steel – unlovely, but hard-wrought and gripping – and yet melts beautifully for her last, compromised plea to Foresto. Attila himself is the American baritone Samuel Ramey, deploying all his best strengths: coiled-spring intensity, dark eloquence and a sculpted Tartar face. Directed by Terry Edwards, the Royal Opera chorus makes a decisive mark at each opportunity. Such tautly contrived mixes are unstable; hear this one if you can, while it lasts!

David Murray

On the same night English National Opera reached its final presentation of the season, a revival of *The Magic Flute*. Whenever the company is in search of an audience, this is an opera to which it can turn. The present production, dating from 1988, is sophisticated and morally unimpeachable: it erases all suggestions of racism from the text by painting Monostatos white and avoids sexism by introducing a woman into the Brotherhood. An easy sense of humour, the opera's childlike innocence, come to it less easily.

This revival is not especially distinguished, in either orchestral or vocal terms. Alan Opie's genial Papageno was worth his bottle of scrumpy, shared no doubt with Sally Harrison's bubbly Papagena at the end. Otherwise, the chief pleasure of the evening came from the radiant singing of Gillian Webster, whose Pamina is in a class of her own, abeautifully pure soprano and a musician who shapes every phrase in the most personal manner. In the favourite duet with Papageno this translation has her singing of "truth and beauty" – just the qualities that she alone brought to the performance.

Richard Fairman

There are seven more peformances of *Attila* at Covent Garden between tonight and July 3; *The Magic Flute* is at the London Coliseum until June 25 (sponsor: United Airlines)

INTERNATIONAL ARTS GUIDE

BONN

Valery Panov's new Chekhov ballet, Three Sisters, opens at the Oper on Sat, set to piano music by Rakhmaninov played by Vovka Ashkenazy (repeated Sun, next Tues and Wed). Mon: Ken Russell's new production of Salome with Emily Rawlins, Graham Clark and David Pittman-Jennings. June 24: Placido Domingo sings Otello (773667)

DUSSELDORF

Deutsche Oper am Rhein Tomorrow and Sun: Heinz Spoerli's production of Giselle. Fri and Tues: Fabio Luisi conducts *Pet Halmen's* new production of Turandot. Sat and next Wed: Swan Lake (211-8908 211). Duisburg Theatre has Cosi fan tutte tonight, Salome on Fri and Siegfried on Sun (203-3009 100)

COLOGNE

Opernhaus Tonight, Sat: Un ballo in maschera with Andrea Gruber, Taro Ichihara and *Paolo Coni*. Tomorrow: Die Zauberflöte. Fri: TanzForum triple bill, choreography by Jochen Ulrich. Sun: Thomas Fulton conducts *revival* of Willy Decker's production of Billy Budd, with Stuart Kale, Boje Skovhus and Allan Evans, repeated next Tues and Fri (221 8400)

Philharmonie Fri: Sergiu Celibidache conducts Munich Philharmonic Orchestra in symphonies by Haydn and Tchaikovsky (2801)

COPENHAGEN

Tivoli Tonight: *Pinchas Zukerman* Chamber Ensemble plays Beethoven, Mozart and Tchaikovsky. Tomorrow: Yan Pascal Tortelier conducts Danish Radio Symphony Orchestra in works by Hindemith, Rakhmaninov and Bartok, with piano soloist Hélène Grimaud. Fri: Aldo Ceccato conducts Beethoven's Eighth and Ninth Symphonies. Mon: King's Singers. Tues: Paavo Järvi conducts Malmo Symphony Orchestra in a Brahms programme. June 26: Walter Weller conducts concert performance of Tannhäuser with René Kollo (3315 1012)

DRESDEN

Semperoper Tomorrow, Sun, next Wed: Les Contes d'Hoffmann. Fri: Ariadne auf Naxos. Sat: Rakhmaninov double bill, pairing a ballet set to The Isle of the Dead with his early opera The Miserly Knight. Tues: Fidelio (484 2731)

Kulturpalast Sat and Sun: Günther Herbig, chief conductor of the Dresden Philharmonic in the 1970s, returns for the first time since German unification to conduct the orchestra in works by Bartok and Bruckner, with viola soloist Tabea Zimmermann (486 6306)

FRANKFURT

● André Heller's gypsy variety show Magneten opens tonight at Alte Oper, daily till June 27. July 1 and 2: Pierre Boulez conducts London Symphony Orchestra, with Daniel Barenboim and Jessye Norman (1340 400)

● Michael Boder conducts Christof Nel's new production of Die Meistersinger von Nürnberg *tonight and Sat* at Opernhaus (also June 26, July 4 and 11), with Alan Titus as Hans Sachs (236061)

● Tom Stoppard's 1973 radio play Artist descending a Staircase can be seen on Sat and Sun at Kammerspiel. The Schauspielhaus repertory includes Schiller's Don Karlos and Shakespeare's Othello and The Merchant of Venice (2123 7444). English Theater Kaiserstrasse has Alan Ayckbourn's Taking Steps, daily except Mon (2423 1620)

HAMBURG

Staatsoper Tonight: Cullberg Ballet presents Mats Ek's 20th century version of Giselle at the Staatsoper. Tomorrow: *Ek's Carmen ballet*. Fri and Sat: Lar Lubovitch Dance Company. The next two weeks are otherwise devoted to John Neumeier ballets, including Bach's Matthew Passion on Sat (at Hauptkirche St. *Michaelis*), *Schnittke's Peer Gynt* on Sun and the Mendelssohn/Ligeti Midsummer Night's Dream on Tues (351721)

Musikhalle Tonight: Sergiu Celibidache conducts Munich Philharmonic Orchestra in a Wagner orchestral programme. Sun morning, Mon and Tues evening: Gerd Albrecht conducts Hamburg State Philharmonic Orchestra and Monteverdi Chorus in Verdi's Four Sacred Pieces and Mahler's orchestration of Schubert's Death and the Maiden quartet (354414)

LEIPZIG

Opernhaus Tonight: Uwe Scholz's ballet The Creation, music by Haydn. Tomorrow and Sun: Elektra with Deborah Polaski. Fri: Cosi fan tutte. Sat: Il trovatore. Tues: Scholz's ballet Symphonies (291036)

Gewandhaus Sat: Brigitte Fassbaender song recital. Sun: opera concert with Veriano Lucchetti and MDR Symphony Orchestra conducted by Daniel Nazareth. June 29: Brendel plays Beethoven (7132 280)

STUTTGART

LUDWIGSBURG FESTIVAL

Fri: *Evgeny Kissin piano recital. Sat:* Yuri Bashmet viola recital. Sun: Duo Mediterraneo plays dance music from 13th-16th centuries on a variety of instruments. June 23, 24, 25: Rudra Béjart Lausanne presents *Béjart's latest dance creation*. The festival runs till September 26. Most performances take place in Theater im Forum (7141-949610)

MUNICH

THEATER DER WELT

Munich's World Theatre season runs till June 27, with performances spread around the city's major stages. At Residenztheater, National Theatre of Cralova, Romania, presents Alfred Jarry's Roi Ubu tonight and tomorrow, and Shakespeare's Titus Andronicus on Sat and Sun. Luc Bondy's French-language staging of Ibsen's John Gabriel Borkman, starring Michel Piccoli, opens tomorrow at Theater im Marstall for four performances. Moscow's Teatr na Pokrovke gives the first of five performances of Chekhov's Three Sisters next Tues at Scholastika. Other groups at the festival are New York-based Wooster Group, Piccolo Teatro di Milano and Théâtre de Complicité (Tickets and information from Maximilianstrasse 11, tel 291744)

MUSIC

Gasteig Tonight: Daniel Nazareth conducts MDR Symphony Orchestra *and Chorus in works by Brahms*, Richard Strauss and Ravel, with soprano soloist Gundula Janowitz. Sun: Munich Bach Chorus performance of Haydn's oratorio The Creation. Mon: Enoch zu Guttenberg conducts Brno State Philharmonic and Chorus in Mendelssohn's Elijah (4809 8614)

Herkulessaal der Residenz Tomorrow: Melos Quartet plays works by Haydn, Janacek and Beethoven. Fri: Ingo Metzmacher conducts Bavarian Radio Symphony Orchestra in Boulez, Messiaen and Zimmermann (299901)

Deutsches Theater Bubbling Brown Sugar, Harlem musical, daily except Mon (5523 4360)

OPERA FESTIVAL

Munich's National Theater reopens on July 1 with a new Bavarian State Opera production of Lady Macbeth of Mtsensk starring Hildegard Behrens. Other highlights of this year's five-week festival include *new productions of Die Frau ohne* Schatten and La traviata, plus well-cast repertory performances of Le nozze di Figaro, Don Giovanni, Die Zauberflöte, Cosi fan tutte, Lucia di Lammermoor, Tosca and Die Meistersinger von Nürnberg (221316)

STOCKHOLM

Drottningholm Tonight, Fri, Mon: Louis Langrée conducts John Cox's Swedish-language production of *Zémire et Azore*. Next Tues: Langrée conducts Drottningholm Theatre Orchestra in a symphonic programme entitled Around the Revolution. July 10: first night of Una cosa rara, opera by late 18th century Spanish composer Vicente Martin y Soler (660 8225)

Royal Opera Tomorrow, Fri: Boccaccio. Sat: Die Meistersinger von Nürnberg. End of season (248240)

STRASBOURG

STRASBOURG FESTIVAL

Kiev Opera gives guest performances of Nabucco tomorrow and Fri, followed on Sat by a Strasbourg Philharmonic Orchestra concert featuring trumpet soloist Maurice André and flute soloist Jean-Pierre Rampal. Next Tues: Il seminario musicale presents sacred music by Pergolesi and Scarlatti. Next Thurs: first of four Opéra du Rhin performances of Cosi fan tutte. Next Fri: Alfred Brendel plays Schoenberg's Piano Concerto (8832 4310)

ARTS GUIDE

Monday: Berlin, New York *and Paris*.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, *Athens, London, Prague*.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

BUSINESS AND THE ENVIRONMENT

The smart way to save energy

A Canadian company is showing utilities the virtues of power conservation, writes Stephen Wisenthal

Saving energy is generally far cheaper than building new power plant, but convincing consumers of this simple and obvious message takes effort and skilful persuasion.

However, a Canadian company has taken on the task of preaching the virtues of power conservation to utilities and energy users around the world. Its scheme has attracted more than 25 utilities, from Mexico to the Czech republic, and others are expected to join soon.

Power Smart began as the energy conservation initiative of British Columbia Hydro, the government-owned utility. The company spent C$60m (£30.7m) developing a wide-ranging package of programmes for its own use, and then realised it could do even better if it worked with other utilities.

BC Hydro found that the province's population of 3.5m was not enough to interest manufacturers to go along with its plans. They were reluctant to take the trouble to meet BC Hydro's standards for products such as energy-saving motors, low-power refrigerators or high-efficiency insulation, and then face the same process for the next utility down the road.

So BC Hydro set about bringing other utilities into its scheme. It transferred its conservation expertise into a separate company – Power Smart – two years ago.

Now, most of Canada's electrical utilities have signed up, and Power Smart is optimistic about further expansion in eastern Europe, South America and the US, all areas which already have one or more members. *In March, the firm signed* up its second US member, American Municipal Power-Ohio (AMP-Ohio), which supplies electricity to more than 77 communities.

The utilities which have joined vary widely in size. BC Hydro has a capacity of more than 10,000MW, mainly from hydroelectric dams, and supplies more than 1.3m customers. The smallest member, Caribbean Utility Company, on Grand Cayman Island, uses diesel generators with just 71MW of capacity for 12,600 customers.

But they all face the same simple economics – it is nearly always cheaper to encourage users to save a kilowatt hour of electricity than it is to build the capacity to generate an extra kilowatt hour. At BC Hydro, which has low power costs, it is estimated to be five times more expensive to increase capacity than to save energy. Nor does the strictly financial cost of expanding capacity include the strains that generating electricity places on the environment.

The generic term for schemes such as Power Smart is demand-side management. Once a typical programme is up and running, most of the money is returned to customers in the form of rebates, customer help lines and other types of service, says Tom Cave, Power Smart's director of energy services.

Short-term financial incentives are used to overcome customers' resistance to the higher initial cost of energy-efficient equipment, but the benefits – to the customer and the utility – last much longer. And a crucial component of the programme is marketing.

"To get past the engineering barriers, you have to get people to think about conserving energy. The most powerful energy-saving technique of all is changing people's attitudes, and changing attitudes is essentially a marketing function," says Cave.

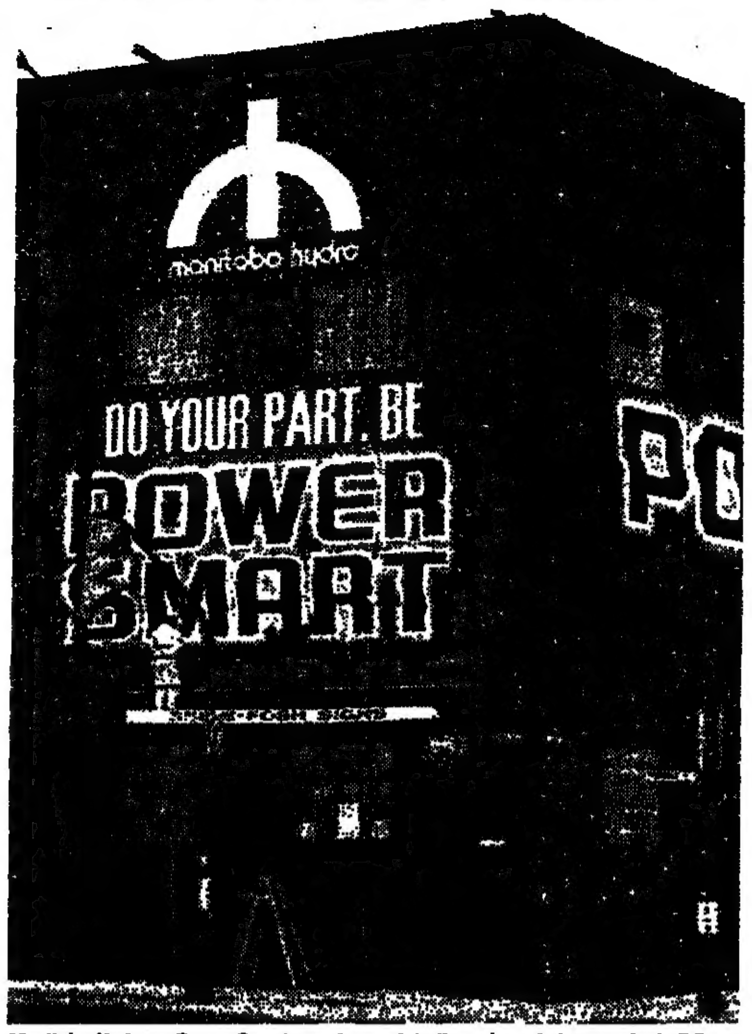
Under the umbrella of demand-side management, different utilities have widely varying goals. Utilities in developed countries usually want to discourage consumption across the board – for industrial, commercial and individual customers.

In eastern Europe, on the *other* hand, the problem is seen as too much consumption by industrial *users and not enough by residential* consumers. Governments there want citizens to have refrigerators and other items which improve the quality of life, says Eric Cardey, a vice-president at Power Smart.

Another important driving force behind conservation in eastern Europe is to preserve the environment. Much of the region's electricity is generated from low-grade coal, which contains up to 3.5 per cent sulphur and creates considerable pollution.

Unfortunately, conservation cannot be the region's only concern. Large generating complexes were built under the communists to serve industry. Industrial demand, particularly for military production, has fallen off – but they have to keep selling the electricity to cover the cost of running the power plants they already have.

Yet governments in eastern Europe are taking a longer term view about residential consumption. "If they don't get energy efficient now, because there is so much retrofitting and new construction taking place, they're going to miss the boat," says Cardey.



Manitoba Hydro, a Power Smart member, paints the scheme's logo on its building

And the Czechs and Slovaks have realised the importance of marketing in achieving these goals. When they joined Power Smart, they obtained the right to use the name and logo in their advertising and access to programmes for everything from low-energy water heating and lighting to efficient air compressors and even buildings.

As an indication of the sort of success they can hope for, Cardey cites the promotion of the use of energy-efficient motors in British Columbia. The motors have a higher cost, which pays for itself in 1.5 to two years through energy savings. The average market share for high-efficiency motors for manufacturing use in North America is 3 per cent. In British Columbia, that share has been increased to 75 per cent since the Power Smart programme began.

Arthur Geikie, president of Power Smart, says the strength of his company's programme is that it offers a complete range of conservation plans – for residential, industrial, commercial *and institutional* users.

Being a member of Power Smart allows small utilities to take advantage of research they could not afford, he adds.

For an annual fee ranging from C$10,000 for a utility with fewer than 10,000 customers to C$75,000 for a million or more customers, Power Smart provides the right to use its logo in promotional materials. The utilities can also pick from a "library" of tested and proven ideas and, perhaps just as importantly, avoid costly mistakes.

Given the importance of marketing in encouraging conservation, the Power Smart brand name is seen as a key element, providing a shorthand for manufacturers and consumers to rally around. Even in non-English speaking countries such as the Czech and Slovak republics, the English language logo is used alongside a translation.

The company endorses products, allowing manufacturers to use the Power Smart logo on qualifying items and making it easy for consumers to identify energy-efficient choices.

A large number of Canadian suppliers are already involved. And companies such as Philips, the Dutch electrical concern, and Tungsram, the Hungarian subsidiary of General Electric of the US, are looking at certification for some of their products.

Power Smart has carried out consulting work in countries, including Costa Rica, Peru, Thailand and Russia, which have little or no history of demand-side management and which it is hoped *will sign up as* members in the future.

Utilities in developed countries have tended to be a harder market. They usually already have some kind of demand-side management in place, and it is more difficult to convince them of the benefits of banding together.

Western Europe has less need for help, largely because electricity prices have been very high for a long time. "Europeans seem to have positive attitudes already," says Cardey. For the future, Power Smart hopes to continue expanding. It has signed up its first gas utility and hopes to add more.

In the long run, Power Smart expects regions where a number of utilities have signed up, and achieved "critical mass", to become more autonomous, sharing resources within the region with counterparts which have similar concerns.

If BC Hydro, with some of the cheapest electricity in the world, can justify spending money to reduce consumption, anyone can, says Cardey.

The EC's green badge scheme is in disarray, says Peter Knight

Eco-label still not sticking

Next month, the EC Commission launches its eco-labelling scheme without a single product displaying the much-awaited badge of environmental approval.

The Commission's original intention was to have at least five labelled products in the shops before the launch. Instead, the scheme is in disarray. Some countries such as Ireland and Portugal have failed to set up the necessary organisations to administer the label. Others like France and the Netherlands appear to be developing national schemes in preference to the EC's.

Some manufacturers are threatening a boycott and environmental groups complain that their views have been suppressed in favour of industry's. "Anyone can punch holes in the scheme. The really hard task is to find solutions and not just look for problems," says Julia Hailes, the environmental consultant on the UK Eco-labelling board.

Each country was supposed to set up a national board to organise and administer the label. The UK board is known to be critical of the Commission's level of commitment to the scheme.

The idea of an EC-wide scheme was developed in the late 1980s in response to consumer pressure for an official stamp of approval on goods with a reduced impact on the environment. "We have suppliers who are trying to reduce this impact and want to tell our customers about it," says Alan Knight, environmental co-ordinator at B&Q, the UK do-it-yourself chain.

"But because most of our customers won't believe environmental claims made by manufacturers, an official eco-label is the best solution," he says. Experience with environmental labels in Germany, Canada and the Nordic countries showed that manufacturers could gain market share and possibly charge more for approved goods.

The EC hoped its label would satisfy demands from consumers and encourage industry to improve its environmental performance. But the scheme ran into trouble. Methods for judging products were inadequate and created disagreements within industry and between environmental groups and manufacturers.

At one stage, it was decided that paper products with high proportions of recycled material would be favoured at the expense of those made with virgin pulp. This upset pulp suppliers who argued that recycling paper was not necessarily the best environmental option.

Recently, environmental groups have begun to press for the exclusion of products tested on animals. They say this must be a criterion but the label's administrators say animal testing is covered by other EC laws.

The Body Shop, a maker of personal care products which campaigns against animal testing, has threatened to boycott the scheme unless animal testing is included in the criteria.

The confusion and delay has disillusioned some manufacturers. Electrolux and AEG will continue to support the scheme and apply for labels, but Hoover is concerned that environmentalists are gaining too much say.

Hoover might not apply for a label for its washing machines. Bosch is undecided. The European Lighting Council has withdrawn from the negotiations to establish a label for light bulbs.

Manufacturers are also dismayed at the amount of red tape the scheme has encouraged. Details on the only product category so far to get the official nod – dishwashers and washing machines – have yet to be published in the EC's Official Journal. Publication is about three months behind schedule because the various Brussels departments are taking so long to process the paperwork.

"The one good thing is that the scheme has at least encouraged manufacturers to pay attention to environmental issues and improve their products. This is good for the environment, even if they decide not to apply for a label," says Hailes.

PEOPLE

C&W veterans prolong their stay

Two Cable & Wireless directors, 54-year-old Brian Pemberton and 57-year-old Tom Chellew, who between them have clocked up 58 years at the telecommunications group chaired by Lord Young, are retiring in July, but both will retain consultancy roles on a renewable annual basis.

The continuing association with C & W contrasts with the departure in early 1992 of Peter van Cuylenburg who saw his hopes of becoming chief executive dashed when James Ross was brought in from BP.

Pemberton, who joined the company in 1957, was responsible for restructuring the Hong Kong business during the 1980's. At one time he had seemed a possible successor, in the chief executive seat, to Sir Eric Sharp, but he was eclipsed by Gordon Owen, who then resigned after a power struggle on the arrival of Lord Young. There is no suggestion of any continuing rankle, however, and after the arrival of Ross, Pemberton had been made internationaldirector encompassing C & W's international network and the marine division as well as North America and Australia.

The regional responsibilities of Chellew, meanwhile, tended to prompt the question from envious colleagues as to what he did for his holidays. On joining C & W in 1971, his expertise was the Caribbean; after the Ross reshuffle he looked after the Indian Ocean, Africa and the Middle East, and the Pacific Islands in addition to the Caribbean.

As Pemberton and Chellew will not be replaced, the top management team will now consist of five executive and five non-executive directors in addition to the executive chairman Lord Young.

C & W was unable to specify how much time each departing director would continue to devote to the company. However, both remain on a number of subsidiary boards in their areas of expertise – Pemberton for the Asia Pacific region and Chellew for the Caribbean.

Nor are they quite the last of the old C & W hands, despite the considerable changes in management wrought since the arrival of Lord Young. Mike Gale joinedthe companyin 1959.

Peter Courtney, 60, who two years ago took early retirement from Boots where he had been group finance director, becomes non-executive chairman of Yorkshire Building Society, Britain's 12th largest society.

He succeeds Denis Macnaught, the former chief executive between 1975 and 1987, who is now stepping down from the board at the age of 66.

"Macnaught is a retiring Scottish accountant; Courtney is also a chartered accountant but a very different personality" says a Yorkshire Building Society spokesman, who adds that "no deliberate change of style is being sought."

Courtney, who has been on the society's board since he left Boots, is also a director of Throgmorton Trust and Hays.

Transfer Technology recruits Bill Hayden

Transfer Technology, the fast-growing specialist engineering company headed by Labour MP Geoffrey Robinson, has recruited Bill Hayden to the board as its third non-executive director. Rhys Williams, chairman of the council at the University of Warwick and until recently a director of GEC, who has just been co-opted to the board.

Hayden, the former Ford of Europe manufacturing director, spent his last two years before retirement as chairman and chief executive of Jaguar, famously comparing factory conditions at Ford's new prestige acquisition to plants he had seen in Gorky. Robinson is perfectly familiar with Jaguar, having been chief executive at just 35 in the mid 1970's when he remembers luring away a number of Hayden's key men. As it is, Ford is by far TransTec's biggest customer on the car components side, buying 75 per cent of the company's manufacturing output for the automotive industry.

A principal reason for hiring Hayden, who lives just 20 minutes away from the TransTec's Coventry office, is his knowldege of the Japanese market and his ability to deal with Japanese car makers, according to finance director Neil Logue.

A leading authority on Japanese work practices, Hayden was the author of a paper "BJ AJ" – Before Japan, After Japan – written after a seminal visit to the country in 1979. At a time when it was still notably difficult for foreigners to divine much about Japanese manufacturing techniques, Hayden had come back "shaken" by the competitive gulf between Europe and Japan, and resolved dramatically to improve Ford's efficiency.

Robinson has said that he will split the role of chairman and chief executive at some point during the next 18 months.

"All the non-executive directors are possible chairmen" says Logue "but Hayden would fit the bill very well."

Hayden is also on the board of automotive design engineer Hawtal Whiting.

Kleinwort's wolf man turns on L. America

Old Etonian Roger Palmer, whose private wolf pack has often had more publicity than his share tips, has hung up his hat after five years as Kleinwort Benson's chief investment strategist.

Palmer, 46, a former partner of Grieveson Grant before it was taken over by KB, has been picked to head his firm's move into the market for emerging Latin American securities. Whilst almost all of the major North American brokers are active in this market, it is a relatively new departure for a London broker.

However, Palmer says that it takes as long to fly to Buenos Aires from New York as it does from London, and KB is keen to capitalise on its corporate finance connections in the region. It is one of the co-lead managers of the partial privatisation of YPF, Argentina's state-owned oil company.

Albert Edwards, 32, Palmer's deputy for the last four years, takes over as global investment strategist. After three years at the Bank of England, he moved to Bank of America's Investment Management arm, before joining KB in 1988.

Palmer is the latest global investment strategist to switch jobs. Lisa Hosking, a member of Warburg's number one rated team, moved to CSFB a year ago, and James Capel's Alastair Ross Goobey left to head Postel.

MANAGEMENT

Japanese companies are looking for ways to improve efficiency in the office, writes **Michiyo Nakamoto**

Standing oration

Since the beginning of this month, staff at the Yokohama town hall are being urged to conduct meetings standing up.

To help them, the City Office has built a new conference room which, instead of tables and chairs, is furnished with 16 podia. The new conference room was the result of mounting concern among Yokohama city staff over the number of meetings held each day and the amount of time each one took. If meetings were held standing, city officials reasoned, they were bound to finish sooner.

A growing number of Japanese companies are similarly looking for ways to improve efficiency among office staff.

Shiseido, the Japanese cosmetics company, has set aside two hours each day as "concentration time". Staff at the Tokyo head office do not attend meetings or answer the telephone during that period. Instead, a few members of each division take turns to man the phones allowing their colleagues to concentrate on the work in hand.

Shiseido launched the scheme in April after it discovered that interruptions during the day from telephone calls and meetings were the main cause behind the need for staff to work overtime.

The scheme is part of a wider programme aimed at improving productivity among its office staff. Shiseido hopes to reduce the number of overall working hours from the current 1,920 to 1,860. This may not seem much, but in Japan any reduction is highly unusual.

Toyota, the car manufacturer, is also implementing a programme this month which aims to raise productivity among office staff by 30 per cent. The company plans to achieve this by requiring divisions to re-direct 20 per cent of staff time to new businesses and, for the remaining 10 per cent, by reducing working hours.

What has triggered this growing concern with raising productivity is the economic slump, which is one of the worst for the country since the end of the second world war. Company profits in Japan, announced last month, were down for a third consecutive year.

Against this environment, a preoccupation of Japanese company managers has been the need to ensure profitability even while markets are not expanding. Since it is socially unacceptable in Japan to make large redundancies, one way to maintain profits in sagging markets is to raise productivity.

Office workers have become a target of this productivity drive because, while Japanese companies are recognised for their achievements in raising productivity on the factory floor, they have not had similar successes in the office.

Between 1976 and 1990 the production costs incurred by all listed Japanese companies fell 5 per cent, largely as a result of improvements on the factory floor, says Kuniyoshi Sasaki at the Japan Productivity Centre. Meanwhile all-non-manufacturing costs – those related to administration and marketing – rose 33 per cent

Another reason why concerns about productivity are targetted at the head office rather than the factory floor is that most Japanese companies took on many white-collar workers in the past few years when the economy was surging.

Between 1955 and 1991, the number of professionals and engineers employed by Japanese companies grew by 385 per cent, that of managers by 280 per cent and clerical workers by 326 per cent, the Japan Productivity Centre found. This compares with 111 per cent growth in the number of skilled workers. The Bank of Tokyo estimates white-collar workers accounted for nearly 70 per cent of the rise in the number of employees between 1986 and 1991.

Personnel costs have been creeping up, from 11 per cent of revenues five years ago to 12 per cent last year according to the Ministry of Finance.

Sasaki lists several problems which must be tackled if productivity in the Japanese office is to be raised.

● Too many meetings. Sasaki attributes this to the "village society" mentality that still rules in Japanese companies. One reason for Yokohama City Office's standing-only conference room is because it discovered that city staff spent too much time there. According to its research, 200 conferences are held on average by City Office staff per day, with each conference averaging two hours 25 minutes.

The situation has even led the City Office to publish a booklet on how to cut down on meetings, which suggests they should not last longer than one hour on average, and that briefing papers should be restricted to a maximum of three.

Currently, says Sasaki, whenever something happens everyone meets to discuss it. There then has to be a more informal get-together, followed by drinks and so on.

● Unclear responsibilities. Multiple management layers in Japanese companies mean it is often difficult to know where responsibility for particular decisions lies.

For example, the department head is usually responsible for the department's activities, but it is the divisional head who is actually involved in day-to-day issues.

● Ineffective use of office equipment. When a new machine is introduced in a factory, the whole production process is reviewed and work is re-arranged accordingly to raise productivity.

But in the office, the wider use of PCs and copiers has not resulted in similar efficiencies.

"There is a need for office work engineering," Sasaki says. Office automation has not been accompanied by a reorganisation of work patterns which would raise productivity. If anything, he says, the volume of paperwork has increased.

While a return to better times may blunt current enthusiasm for productivity increases in the office, the labour shortages expected in Japan early next century mean companies may have to come up with solutions now. However, Sasaki does not expect a dramatic improvement in the foreseeable future.

The government's policy is to maintain employment levels even if that means excess labour among companies. Government subsidies pay for the salaries of workers seconded to subsidiaries, those who are asked to stay at home for lack of work, or who need to be re-trained to do other work.

A sympathetic ear in the office

Employee counselling schemes are helping to make the workplace happier, reports **Peggy Hollinger**

A senior administrator in a London bank had spent several years successfully climbing the corporate ladder. Yet over a period of six months he began to experience headaches, a poor appetite and eczema. Demoralised, he started scanning the employment pages for a new job.

His departure might have cost his employer thousands of pounds, as it sought to train a replacement candidate. Yet due to confidential counselling paid for by the bank, which identified symptoms of stress due to a difficult relationship with a superior, he remained and was soon promoted to a more senior position.

A female employee in a computer firm faced similar problems. Yet after a few counselling sessions, she is back at work and enjoying a better relationship with friends and colleagues.

"My friends say I have changed a lot, become a lot more outgoing and assertive," she says.

Employee Assistance Programmes (EAPs) are run by 80 per cent of the top 500 US companies. In the UK, EAPs are also becoming an increasingly popular employment benefit, particularly in the banking, pharmaceuticals and financial services industries.

Since the late 1980s some 150 UK companies are estimated to have taken up comprehensive EAPs and the rate of participation is increasing, according to providers.

Groups as diverse as Whitbread and Mobil Oil are among converts to the advantages of providing confidential counselling to employees and their families throughout their working lives.

The counselling programme, usually contracted out to an independent firm of specialists, is often part of an occupational health programme.

Employees and (where appropriate) their families are generally given a card with a number to contact a counsellor either for telephone or face-to-face counselling.

The service may cover problems ranging from depression to debt, or stress arising from difficulties at home or in the workplace.

The argument for introducing such a programme may not be immediately apparent to frontline managers more concerned with the day-to-day job of surviving the recession. Improving the general sense of well-being among employees is likely to be lower on the list of priorities.

However, with recession forcing companies to cut staff, the pressures on those who remain has never been greater.

Ian Anderson, community investment manager of Whitbread, is adamant his company's experience is solid proof of the benefits which EAPs can bring. He claims that "the EAP has been a major factor behind our success in retaining managers".

The service may cover problems such as stress arising from difficulties at home or in the workplace

Since introducing it on a trial basis in 1988 in conjunction with the EAP firm, Focus, Whitbread now offers the facility to all employees and their families. It estimates that about 5.5 per cent of its workforce uses the programme, with the most common concerns being work and family related.

Anderson believes the EAP has helped to improve the efficiency of employees and encourage a happier workplace. "If they have problems, they will be careless," he says. The company is also likely to experience problems of absenteeism and "general lateness". However, says Anderson, EAPs had helped "to nip such problems in the bud".

Mobil Oil, which uses the 24-hour service provided by Personal Performance Consultants, considers its EAP to be an essential element of its health and safety programme.

Initially introduced to deal with the problems of its off-shore employees, many of whom are away from their families for two weeks each month, the facility has been expanded to cover 3,000 workers around the country.

John Cooper, Mobil's group medical adviser, stresses the importance of mental health at work, particularly in the off-shore industry. "If you are not functioning at 100 per cent, then you are a safety risk," he says.

Employees with problems will either refer themselves or can be referred by managers. If referred, it is up to the employee to decide whether to take up the offer.

The counselling will then remain confidential. Both Anderson and Cooper stress the need for this, although the company pays a price by receiving few statistics on use of the programme.

The lack of statistics makes the payback difficult to determine. In the US, where EAPs have been accepted practice since the 1940s, statistics are easier to come by. The aerospace group McDonnell Douglas is often cited as a company which has seen tangible benefits.

The initial costs of setting up an EAP are likely to be incurred in commissioning an outside counselling firm or hiring one in-house and printing the promotional literature.

On average, hiring an external counselling service will cost a company between £15 and £30 per employee, depending on the complexity of the programme.

Companies must be prepared to invest in training management to spot potential problems, and appoint at least one person to oversee the day-to-day running of the programme.

Whitbread supports its EAP with posters, brochures and regular talks.

"It is no use launching a programme with great razzamatazz and expecting your staff to remember its existence," says Anderson.

"Like any other service, it needs marketing."

Nadir 'most unlikely' to return and face trial

By John Mason and David Owen

MR ASIL NADIR is "most unlikely" to return to Britain to face trial this September it emerged yesterday, as the Conservative party pledged to return money donated to it by the fugitive businessman if it proved to be stolen.

In the first court hearing before Mr Justice Tucker since the former Polly Peck chairman jumped bail and fled to northern Cyprus, the Serious Fraud Office also ruled out any trial of Mr Nadir in his absence. However, the SFO announced its intention to continue criminal proceedings against Mr John Turner, the former Polly Peck group accountant facing false accounting charges.

Conservative party officials promised that the £440,000 donated to party funds by companies associated with Mr Nadir would be repaid if it were proved that the money had been stolen. They denied reports that Mr Nadir had made other secret donations to party funds. In an unusual statement released last night, the party said it received a total of £440,000 over five years, with the last contribution made in March 1990.

"These donations were not made by Mr Nadir personally but by Polly Peck International plc or Unipac Packaging Ltd," it said. "We know of no other donations from Mr Nadir personally or from his companies." Asked about allegations that Mr Nadir might have hoped the donations would secure him a knighthood, party officials said no one had received an honour because they had given money to the Conservative party. The sale of honours would be a criminal offence, they said.

In a crowded Old Bailey courtroom, Mr Anthony Scrivener QC, Mr Nadir's barrister, said he had taken instructions from his client at 4pm on Monday. "It is most unlikely he will be here for trial in September. I do not propose to give reasons in open court," he said.

Accepting the position, Mr Robert Owen QC, for the SFO, ruled out any suggestion of putting Mr Nadir on trial in his absence.

The judge also adjourned consideration of the possible forfeiting of Mr Nadir's £3.5m bail sureties. The ownership of the £2m security put up by Mr Nadir himself is currently the subject of an action in the Chancery division of the High Court between Touche Ross, the administrators of Polly Peck, and the Impexbank, a Turkish bank once owned by Mr Nadir. The judge ruled that any decision on the £2m should be postponed until the High Court had ruled on the ownership of the money.

He also adjourned discussion of the possible forfeiting of the other sureties put up for Mr Nadir. These were provided by Mr Ramadan Guney, who stood a surety of £1m and Mr Nadir's ex-wife, Ayesha, who provided a £500,000 surety.

The trial of Mr Turner has now been put back until October 4th this year.

Thorp N-waste plant set to win go-ahead

By Bronwen Maddox

THE THORP nuclear reprocessing plant at Sellafield should get the go-ahead provided that remaining environmental and legal questions can be settled, Cabinet ministers argued yesterday in their first formal discussions about the plant's future.

The government is likely to issue a paper in the next few weeks setting out the case for British Nuclear Fuels' £2.8bn plant, the most contentious environmental decision facing the government.

Mr Paddy Ashdown, leader of the Liberal Democrats, yesterday wrote to Mr John Major, prime minister, to express "grave concern at the national and international implications" of giving the go-ahead to Thorp, which would reprocess used nuclear fuel into reusable uranium and plutonium. The plant has taken nearly 10 years to build and is waiting for a government licence to start operation.

Thorp's future appears unlikely to be brought into the review of the nuclear power industry, due to start in the autumn. That would have postponed a decision – originally expected by BNF in January – for months.

Yesterday's Cabinet discussions, which Mr Major did not attend, focused on the potential earnings from the plant. BNF has argued that Thorp will earn £900m for the UK in the first 10 years of operation and that each week of delay costs £2m.

The final decision falls to Mr John Gummer, the new environment secretary, who is a known supporter of the nuclear power industry.

BNF responded angrily to full-page advertisements yesterday in UK national newspapers taken out by Japanese pressure groups. The group, Japanese Citizens concerned about Plutonium, claimed that the Japanese power utilities, Thorp's biggest overseas customer, no longer wanted the plant to go ahead because it was accumulating too much plutonium.

Complaints from men of sex bias soar

COMPLAINTS about sex discrimination at work soared by nearly two-thirds last year, with men, for the first time, forming a large proportion of those claiming that companies are discriminating in their hiring policies.

The Equal Opportunities Commission, which published its 1992 annual report yesterday said there had been a 64 per cent increase over the previous year in complaints about workplace discrimination. The most common allegations concerned recruitment, terms and conditions, and sexual harassment.

Of 1,253 complaints about companies' hiring policies, 40 per cent were from men, said the EOC. Ms Valerie Amos, chief executive, said the recession had made men "much more aware of their rights".

Chairman hits at male work culture

By Diane Summers, Labour Staff

THE MALE culture of long, unsociable working hours is damaging women's career prospects, says Sir Christopher Tugendhat, chairman of Abbey National.

The message was echoed by Mr John Collins, chairman and chief executive of Shell UK, who said that "jackets over chairs" for 18 hours a day could indicate that a company was working inefficiently.

Men in the UK work longer hours than males in any other part of the European Community, according to research by the Equal Opportunities Commission. Nearly 42 per cent of men work more than 46 hours a week, compared with 23 per cent in the EC as a whole.

In a speech on equal opportunities Sir Christopher plans to deliver to the Industrial Society's women's network tonight, he will say: "Up till now, the workplace has been predominantly male-oriented. There has been a perception that to succeed one has to be tough, to work long and erratic hours, and to be willing to travel, to stay away from home, to move house and even sometimes country. These requirements have tended to favour the hiring and promoting of men rather than women."

Mr Collins said: "I don't want to encourage a culture where people are rushing around trying to achieve too much to the detriment of the quality of their work. That starts with the chairman – I don't work weekends."

One in five 21-year-olds innumerate

By John Authers

ONE IN FIVE of the UK's 21-year-olds are innumerate, while one in seven are illiterate, according to research by the Adult Literacy and Basic Skills Unit.

These people were classified "functionally" innumerate or illiterate after a 30-minute assessment of their skills, not because they could not read or add up at all, but because the requirements of industry have risen.

Mr Peter Davis, chairman of the unit, said: "Even very simple jobs are becoming more complex. Skills need to rise and the needs of employers are rising generally faster than the people's skills."

The unit suggested that an extra 25 per cent needed help with literacy, while an extra 33 per cent needed help with mathematics.

These questions were given to 21-year-olds to test numeracy. Calculators were allowed.

- Two items are bought for a total of £17.89. You hand over £20. What is your change? *Fifteen per cent got the answer wrong.*
- You buy a £4,900 car over three years. You must pay a 10 per cent deposit. What is the deposit? *Twenty-three per cent wrong.*
- You pay £4,410 over three years, paying monthly. How much do you have to pay each month? *Seventy-six per cent wrong.*

The survey, the most detailed of its kind yet mounted in the UK, broadly confirmed previous estimates that around 6m adults in the UK have difficulties with their basic skills, and that 40 per cent of teenagers entering further education needed remedial help with basic skills.

It showed that 21 year-olds with poor skills were much more likely to be jobless – 35 per cent of men with low literacy, and 25 per cent with low numeracy were unemployed, despite an overall figure for the sample of 13 per cent.

Mr John Patten, the education secretary, addressing the unit's annual conference, announced that he was granting an extra £250,000 for pilot schemes in family literacy. These mirror schemes to improve literacy in the US.

He pointed to the unit's finding that poor literacy and numeracy correlate strongly with poor basic skills in parents. Of those whose parents were in the lowest attainment group, without educational qualifications, 61 per cent had low literacy scores and 52 per cent low numeracy scores.

If parents' skills were improved, they would be more likely to pass them on their children, Mr Patten said.

He also claimed that the adult illiteracy problem "shows why it is essential to press ahead with testing" in schools. He said: "We cannot afford to wait until our pupils become adults before we identify and tackle their needs."

Mrs Ann Taylor, Labour's education spokesman, said: "After 14 years of Conservative government the situation is clearly worsening. Government policy reinforces disadvantage."

The survey was conducted in 1991 by City University, who interviewed a representative sample of 1,650 people born between April 5 and April 11, 1970. It excluded dyslexics, people for whom English was not a first language and those with mental disabilities.

Britain in brief

ICI refuses to apologise on CFC ad

THE Advertising Standards Authority upheld four out of five complaints brought by Greenpeace, the lobbying group, against Imperial Chemical Industries.

The complaints related to ICI's claims concerning the environmental impact of Klea 134a, its substitute for CFC gases.

The rulings are a significant embarrassment for the British group. It has invested more than £250m developing the substitute for CFCs.

Greenpeace complained ICI had exaggerated the extent to which ICI's CFC substitute – Klea 134a – would contribute to global warming. The claims were published last October in The House Magazine, distributed to British MPs and parliamentary staff.

In spite of the ASA rulings, ICI rejected Greenpeace's demand for an apology to be published. It said the advertisement had been factually correct, any changes required were essentially semantic, and that the ASA had agreed the company had not intended to mislead.

The ASA, an independent watchdog over printed advertising standards, supported ICI's claim that the direct impact of Klea 134a on global warning was 90 per cent less than that of the CFC it replaces.

Amec wins rig deck contract

Phillips Petroleum Company UK announced it has awarded Tyneside-based Amec Offshore a £55m contract for fabrication of a 9,800 tonne integrated deck for the Judy platform in the North Sea.

Phillips, operator of the £765m Judy-Joanne oil and gas field development, a joint venture with Agip UK and British Gas Exploration and Production, said Amec clinched the contract against stiff international competition.

Amec Offshore, whose Tyneside payroll has dropped from its 4,000 peak a year ago to 1,500, welcomed the order as a "breathing space" while further cost cutting measures are taken.

Recovery cuts company funds

The short-term liquidity position of Britain's large manufacturing companies deteriorated in the first quarter of this year, indicating that growing manufacturing production was taking a toll of their readily available funds.

The ratio, measuring current assets maturing in less than a year as a share of liabilities that have to be repaid in less than a year, was the lowest since the first quarter of 1987.

The Central Statistical Office said the seasonally adjusted liquidity ratio for large manufacturing companies fell to an estimated 95 per cent at the end of March from 101 per cent in the previous quarter and a recent peak of 121 per cent in the first quarter of last year.

Audit reform a 'labyrinth'

Companies are being bombarded with far too many demands for reform of accounting and auditing, the chairman of a group of leading finance directors said.

Mr Michael Lawrence, finance director of Prudential and chairman of the 100 Group of finance directors, told a Confederation of British Industry conference in London that there was a "huge labyrinth" people were struggling to find their way through.

"We are concerned about the volume of material being produced and the numbers of bodies becoming involved," he told the employers' organisation meeting.

"Many chairman and chief executives will begin to lose patience with all this. They will see time and energy being spent by self-interested bureaucracies producing sheaves of requirements. The good and the essential will be criticised along with the unnecessary and the unwieldy."

Firefighters to meet over pay

Local authority employers will meet representatives of the Fire Brigades Union later this month in an attempt to dampen the threat of industrial action if the firefighters pay formula is not restored next year.

Firefighters are one of the few groups of workers who have the power and, potentially, public support, to challenge the government's 1.5 per cent public sector policy.

Debate urged on Bank independence

By Peter Norman

Governor calls for review of status for central bank, preserving its accountability to parliament

MR LEIGH-PEMBERTON, the outgoing governor of the Bank of England, last night called on politicians, academics and the City of London to consider how the Bank might be given more independence while staying accountable to parliament.

In cautiously worded remarks, he suggested that thought should be given to devising a "form of accountability that might enable us to have the advantages of a more autonomous central bank within the constitutional arrangements of our parliamentary democracy".

In his valedictory speech to the City of London before stepping down after 10 years as governor of the Bank of England at the end of this month, Mr Leigh-Pemberton said he recognised "along with the prime minister, that any change to the current status of the Bank of England could pose a dilemma in the UK with our long tradition of parliamentary accountability on the floor of the House by a Minister of the Crown."

But in his address to the Lord Mayor's banquet, he added: "I think all of us – politicians, academics, ourselves in the City – will need to consider how this dilemma might be reconciled."

Mr Leigh-Pemberton has made no secret of his belief that central bank independence can help countries achieve low inflation.

In his remarks last night, he was taking up comments made by Mr John Major last week in the Commons in which the prime minister indicated that he might be in favour of central bank independence "were a way to be found to get the benefits ... without the loss of parliamentary accountability."

However, last night, Mr Kenneth Clarke, chancellor, made clear in his "Mansion House" speech that he did not intend to rush into a debate about giving more autonomy to the Bank.

Meanwhile the Lord' Mayor of London, speaking at the banquet, called for a national levy on businesses to help pay for the dramatic premium increases needed to buy City firms insurance against acts of terrorism.

Lord Mayor McWilliams said: "If the country as a whole wishes to continue to benefit from the city's contribution to the national wealth surely it is right that the country should share some of the costs."

Guests at the Guildhall also heard that the London Stock Exchange is studying the creation of a "second level" market for smaller companies which would have lower listing and regulatory requirements.

Sir Andrew Hugh Smith, chairman of the stock exchange, said that finding ways to direct capital into smaller companies was an important task for the government and the Exchange.

The Exchange is said to have set up a panel to look at the creation of an alternative to the Unlisted Securities Market, due to be closed in several years time.

Sir Andrew said that simple creation of a trading exchange for smaller companies was not enough to spur greater investment.

He said the government must alter the tax structure, which currently encourages private investors to invest in their own homes or in collective investment schemes.

Publication yesterday of detailed plans for the UK's first toll motorway, around the north-east side of Birmingham, ran into immediate opposition from environmentalists and local residents. The protests provide a preview of the arguments that will be voiced at a public enquiry into the road next year.

In Coleshill, Mr Robert Key (right), roads minister, was lobbied by protestors as he opened an exhibition of plans for the motorway.

Trafalgar House and Iritecna, the Anglo-Italian joint venture that will build and run the road, hope to win clearance for the project by 1996 and open it in 1998.

Manufacturing growth fastest since May 1989

By Peter Norman

MANUFACTURING output recovered in April and is growing faster than at any time since May 1989, the government reported yesterday.

The Central Statistical Office said manufacturing production grew by a seasonally adjusted 0.7 per cent between March and April after a 0.3 per cent decline in March. This prompted CSO statisticians to revise upwards their estimate of the annual trend rate of growth from 4 per cent to 5 per cent.

All manufacturing sectors increased output in the three months to April compared with the previous three months, lifting the manufacturing production index out of its previous narrow range.

A breakdown of yesterday's government figures suggests that recovery is being led by investment, and possibly exports rather than consumer demand.

April's figures were buoyed by strong growth in the output of metals, iron and steel and computers. Taking the latest three months figures, which the CSO's statisticians consider a better guide, the office reported strong increases in the production of cars, computers and aerospace equipment as well as materials for the building industry and packaging.

Production of cars and parts rose 8.1 per cent in the three months to April compared with the previous three months while output of computers increased by 14 per cent over the same period.

Consumer goods output was less buoyant, in spite of the sharp rise in car production. It rose 1.1 per cent in the three months to April compared with the previous period and was 1.3 per cent higher than a year ago.

Business optimism reaches six-year high

By Gillian Tett

RETAILERS, wholesalers and motor traders are more optimistic about business prospects over the next three months than at any time since February 1987, a Confederation of British Industry survey said yesterday.

But with the pace of recovery in shop sales reported to have slowed in recent months, after a surge earlier in the year, the CBI employers' organisation warned that the strength of the upturn in consumer spending was still shaky.

Mr Nigel Whittaker, chairman of the CBI's distributive trades panel, said May was the fifth successive month in which retailers reported a year-on-year growth in sales. Yet the growth was below expectations and was partly due to aggressive discounting.

Meanwhile, motor industry sales were slightly down in May, after rising during the first four months of the year.

Noting that the overall volume of sales remained at pre-recession levels, Mr Whittaker said: "Our experience is that retailers can get over-optimistic just as they became over-pessimistic at some stages in the recession."

According to the CBI's quarterly distributive trade survey, which measures business activity among 15,000 retailers, wholesalers and motor traders, 18 per cent more retailers reported a rise in sales than those who had seen falls in May. This balance was 17 in April.

Though this was higher than May last year, when the balance had been 14, it was below March's balance of 25, and retailers' previous predictions. The balance of retailers predicting growth for June is 34 – the most optimistic assessment since the beginning of the recession.

French look to Britain for medical tourist trade

By Alan Pike

FRENCH private hospital operators, at a meeting in London organised by their embassy yesterday, launched a bid to attract non-urgent surgical cases from Britain.

Hospital directors from four areas popular with British residents and tourists – Paris, Brittany, Nord Pas-de-Calais and Cote d'Azur – outlined to medical insurers the potential advantages of contracting for treatment across the Channel.

Price is the main advantage. A spell in a French hospital can often cost around 50 per cent less than the same treatment in the British private sector, The meeting heard of a British patient, quoted £2,100 for a cataract operation at home, who had the treatment in France for £1,100.

Mr David Ashdown, a director of Western Provident Association, Britain's third largest provident insurer, said lower costs in France were leading to some corporate clients seeking provision for treatment there in their policies. WPA had obtained French treatment for British patients "although we have sent hundreds rather than thousands so far."

British health insurers told the meeting they believed most clients welcomed the convenience of local treatment. and would be reluctant to travel to France in order to help contain their insurers' costs.

The British insurers suggested that the French hospital directors should target their marketing efforts at uninsured private patients in Britain. Many medical procedures now involve day-surgery or very short stages in hospital; in these circumstances, a 50 per cent price difference could make "medical tourism" attractive to patients meeting their own bills.

The meeting also agreed that keen pricing could lead to co-operation between French hospitals and the National Health Service. But the issue is politically sensitive and, although NHS representatives were invited to yesterday's meeting, none attended.

Seven more public projects opened up to private investment

By Andrew Taylor, Construction Correspondent

THE government named seven more construction projects it would like developed jointly by private and public interests and published guidelines for companies wishing to fund and develop projects usually financed by the public sector.

The seven, expected to cost a total of several hundred million pounds, are all inner city projects in the Midlands, north-west and north-east England.

They include two in Coventry and two in Rochdale as well as schemes in Liverpool, Gateshead, Sunderland and London Docklands where 70 acres of land in the former Royal Victoria dock are being offered for development.

Much of the land identified for development is owned by public authorities, such as local authorities (local government) or urban development corporations.

The environment department guidelines, announced by Sir George Young, construction minister, would allow public authorities to hand over land free of payment to private developers in return for a share of future profits.

Local authorities would have greater freedom to use capital receipts to supplement investment by private sector companies.

Developers could receive funds from urban development corporations, urban partnerships and City Challenge budgets.

The initiatives form part of a growing government campaign to encourage private investment in public projects in order to cut the public sector borrowing requirement.

The latest schemes are in addition to a list of 21 costing more than £1bn already announced by the former environment minister Mr John Redwood. These included a new airport for Sheffield, a power station for London's Docklands and a road tunnel under the River Tyne.

The government is thought to be close to announcing that private sector backers have been found for several of these projects.

Slower US inflation eases fears on rates

By Michael Prowse in Washington

US consumer prices rose 0.1 per cent last month and by 3.2 per cent in the year to May, providing further evidence that inflationary pressures are moderating, the Labour Department reported yesterday.

Following last week's report that wholesale prices were flat last month, the figures all but eliminated residual fears on Wall Street that the Federal Reserve might opt for an early increase in interest rates.

President Bill Clinton said the inflation figures were part of a broader improvement in economic conditions. At a Washington press conference he said employment had risen noticeably in recent months and mortgage rates were at a 20-year low.

But he warned that the economy would not continue to do well unless Congress soon passed his deficit-cutting economic plan.

"The continuation of this trend depends on our ability to pass a strong economic programme through the Congress which reduces the deficit, increases investment in our future and is fair," he said.

First quarter current account deficit declined to $20.9bn

In a separate report the Commerce Department said the US current account deficit declined to $20.9bn (£13.5bn) in the first quarter compared with $23.7bn in the final period of last year.

The improvement – which occurred in spite of a rise in the merchandise trade deficit – mainly reflected an increased surplus on services and a rise in net investment income.

Most analysts are predicting relatively subdued inflation figures throughout the summer, reflecting an unwinding of distortions which pushed up the indices earlier this year. A sharp cut in tobacco prices has yet to be reflected in consumer prices.

If the figures remain encouraging, the Fed is unlikely to tighten monetary policy before the autumn in spite of its reported shift to a bias towards raising interest rates.

Compared with April's 0.4% increase the small overall rise in consumer prices masked big sectoral differences. Prices of energy and clothing dropped 1 per cent and 0.5 per cent respectively between April and May. But prices of many services rose sharply, with medical prices up 0.8 per cent following a 0.6 per cent gain in April.

The "core" consumer price index, which excludes the volatile components of food and energy, rose 0.2 per cent last month and by 3.4 per cent in the year to May.

High hopes of Brazil's 'real plan'

By Christina Lamb in Rio de Janeiro

BRAZIL'S latest economic plan, the seventh in as many years and the second in just two months, has been met by a mixture of approval and disappointment, summed up by a cartoon on the front of yesterday's O Globo newspaper.

It shows Mr Fernando Henrique Cardoso, the finance minister, clad in white leather and bursting into a saloon with guns waving. But when he fires, only a disappointing little "pam" sound emerges.

Mr Cardoso describes the plan, unveiled on Monday night, as "the start of a new attitude". The *plano verdade* (real plan) consists of a federal government spending cut equivalent to $6bn and various revenue-raising measures aimed to "put the government's house in order".

The plan was welcomed by business as the first to begin attacking the public deficit, rather than interfering with the private sector. The main São Paulo stock exchange index rose 5.2 per cent by lunchtime.

But there was a general feeling that the measures did not go far enough, and would not bridge this year's $12bn budget deficit or reduce inflation, now above 30 per cent a month.

Mr Igor Cornelsen, director of Chartered West LB in São Paulo, said: "For the first time, we have a plan aiming at the heart of the inflationary process – the public accounts. However, while the diagnosis is right and the medicine good, it is nowhere near the dosage sufficient for a lasting cure."

The plan, which needs congressional approval, has six main points.

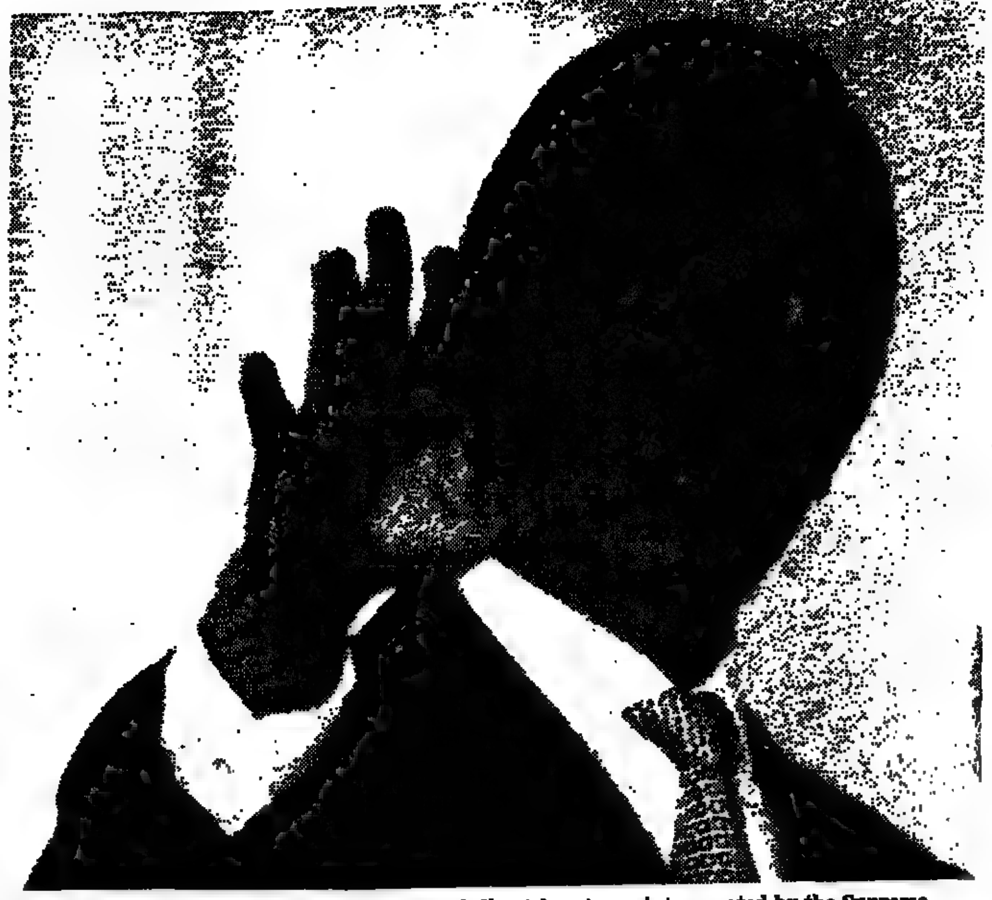
- Faster privatisation.
- A crackdown on tax evasion, with offenders to be jailed for the first time.
- Suspension of transfers to states and municipalities so as to make them start repaying the $40bn-plus they owe the federal government.
- Stricter controls on state banks and auditing of the Banco do Brasil and the National Savings Bank, with possible job cuts and branch closures.
- A new cheque tax (awaiting congressional approval).
- Commitment to reduce interest rates.

Many economists said they would like to have seen bolder measures, such as the announcement of a major privatisation, the closure of bankrupt state banks or more autonomy for the central bank.

Mr José Luís Miranda, president of Banco Interatlântico, said: "This plan is just buying time to set the preconditions for a successful shock".

The government has little scope for cuts because the constitution requires that much of its $240bn budget go to local governments, interest payments and wages. The government can operate on just $14bn, where it is cutting $6bn.

Mr Cardoso's plan is seen as the government's last chance tor curb inflation before elections next year. He says its success now depends on widespread co-operation.



Brazil's disgraced former President Fernando Collor (above) was interrogated by the Supreme Court yesterday in the first stage of his trial on corruption charges. He was impeached last December over alleged involvement in a kickback scheme said to have made him $51m (£33.1m). He denied any wrongdoing and claimed the money was the remains of his campaign chest for the 1989 elections, along with a $5m loan of gold from Uruguay. He said he knew nothing about "phantom" bank accounts through which alleged bribes were supposedly paid.

Smooth sailing towards court for new nominee

By Jurek Martin in Washington

JUDGE Ruth Bader Ginsburg yesterday began a round of courtesy calls in the Senate, amid guarded predictions that she could be confirmed as the next Supreme Court justice before the congressional summer recess.

Her nomination by President Bill Clinton on Monday has been greeted by widespread approval; no apparent obstacles to her confirmation have immediately surfaced.

Even pro-choice advocates in the abortion debate, recognising Judge Ginsburg's long career as an advocate of women's rights, have qualified their initial reservations about her stand on Roe vs Wade, the 1973 court ruling guaranteeing freedom of reproductive choice.

Ms Kate Michelman, head of the national abortion rights league, said she looked forward to hearing Judge Ginsburg's explanation of a recent speech, in which she had said that the ruling may have prolonged political divisiveness. Ms Michelman said that the judge would represent an improvement on the attitudes of the man she is to replace at the court, Justice Byron White, a Catholic who generally voted for curbs on abortion.

Judge Ginsburg's reputation on the federal appeals bench as a consensus builder, an attribute complimented by Mr Clinton, seems to have reassured Republicans and Democrats alike.

It is generally assumed she will strengthen the divided court's centre, represented by Justices Sandra Day O'Connor, Anthony Kennedy and David Souter.

Even so, the process by which the president arrived at her nomination, after an 88-day search, was still attracting criticism, as was his angry termination of a news conference after the first question had suggested he was prone to "a zig-zag quality" when making up his mind.

Mr Clinton said yesterday he had no animus towards the media and, at his latest news conference, offered an olive branch to the TV reporter who had so annoyed him.

As for print media, an editorial in the New York Times said he was "intemperate", the Washington Post blamed the "running commentary from the White House" on candidates for the court job, and the Wall Street Journal, in typical ideological vein, wondered about "the intellectual self-paralysis of both Bill Clinton and modern liberalism."

Bayer offshoot faces C$2m pricing fine

By Bernard Simon in Toronto

A CANADIAN court has imposed a C$2m (£1m) fine on Chemagro, a Montreal-based insecticide company owned by Bayer, the German chemicals group, for a price-fixing conspiracy.

This is the heaviest penalty ever imposed under Canada's competition law. It marks the first conviction under a provision which prohibits foreign-directed conspiracies designed to lessen competition in Canada.

The case involved sales of various chemical and biological insecticides used in forests. Chemagro pleaded guilty to several charges of colluding with other suppliers, both within Canada and abroad, to fix prices on supplies of these chemicals sold to provincial governments and the private sector.

Price-fixing was orchestrated outside Canada by Bayer and Sumitomo Chemicals of Japan. Sumitomo's case is still before the attorney-general.

Cabinet filled in Venezuela

MR Ramón Velásquez, interim president of Venezuela, has appointed two prominent business figures to his cabinet, reports Joseph Mann from Caracas.

Mr Hernán Anzola, central bank president in previous administrations, is planning minister; Mr Gustavo Pérez Mijares is economic development minister. Mr Velásquez has now completed his 19-member cabinet. It retains five who worked under Mr Carlos Andrés Pérez, who is suspended from the presidency to face corruption charges.

FDA warns Pepsi drinkers about cans

By Nikki Tait in New York

THE US Food and Drug Administration has warned US consumers that they should take precautions before drinking canned Diet Pepsi, after syringes were found in a number of cans in Washington state and Louisiana.

The product-tampering surfaced in the Seattle area, where three incidents were reported this week. Two cans containing syringes were subsequently found in New Orleans. A further case, involving a can of Diet Coke, was reported in California yesterday, but there were suspicions this might have been a hoax.

Mr David Kessler, FDA commissioner, advised consumers to empty Pepsi into a glass or cup before drinking, while the company set up a hotline to deal with customers' queries. No-one at Pepsi was available to comment on the likely origin or extent of the problem. On Wall Street, Pepsi shares fell $⅝ to $35⅝ at lunchtime.

NEWS: WORLD TRADE

CONTENTIOUS US-GERMAN PACT

Crossed lines over telecoms trade-off

By Quentin Peel and Ariane Genillard in Bonn

GERMANY'S negotiators with the European Community say the affair of their alleged "secret non-aggression pact" with the US over EC trade sanctions is an unnecessary, but embarrassing, storm in a teacup.

It illustrates how lines of communication within the Community can get tangled over years of complex negotiations. It also shows how dangerous megaphone diplomacy can be in the delicate art of trade negotiations.

There is even an element of sloppy drafting, or possibly mistranslation, thrown in to create further crossed lines between Bonn, Brussels and other member states. There is more than a hint that ministries in Bonn may have failed to talk to each other.

Last week the European Commission demanded an explanation from Bonn for its apparent refusal to implement trade sanctions involving government telecommunications contracts against the US, unanimously agreed by the 12 member states on June 8.

The trade sanctions are token – affecting about Ecu15m (£11.85m) of contracts – but the principle of common action is seen in Brussels as paramount.

Mr Günter Rexrodt, German economics minister, retorted that Bonn would not apply the sanctions as it was covered by an "opt-out clause" written into the June 8 decision. Brussels professed amazement, and Paris suspected treachery by its closest EC ally.

The story goes back to October 1990, when Article 29 of the EC's Utilities Directive was first agreed, giving a 3 per cent price preference for EC companies when bidding for any government contract.

Germany insisted then a clause be inserted stating this move was "without prejudice to [existing] obligations of the EC and its member states towards third countries".

A Bonn official said: "We stated very clearly at the time that this meant someone who has a treaty with a third country does not need to put this article into effect."

The move already contained the seeds of future conflict: some English translations said the article would apply "notwithstanding" existing obligations, instead of "without prejudice to" them: the German word *unbeschadet* can mean both.

The second step came in the wings of the OECD ministerial meeting in Paris, when Mr Rexrodt stopped to chat to Mr Mickey Kantor, the US trade representative. "It was simply an informal conversation in the sunshine before lunch," they say in Bonn. "This was in no way negotiations."

Nonetheless, Mr Rexrodt had a point to make. The US was not implementing its own sanctions against Greece, Spain and Portugal, because they were not implementing Article 29. So why was Washington imposing sanctions on Bonn?

"Mr Kantor said he didn't know we were not implementing the article. They went away and checked and found it was true," says Bonn. "So Mr Kantor agreed we would also be excluded [from sanctions]."

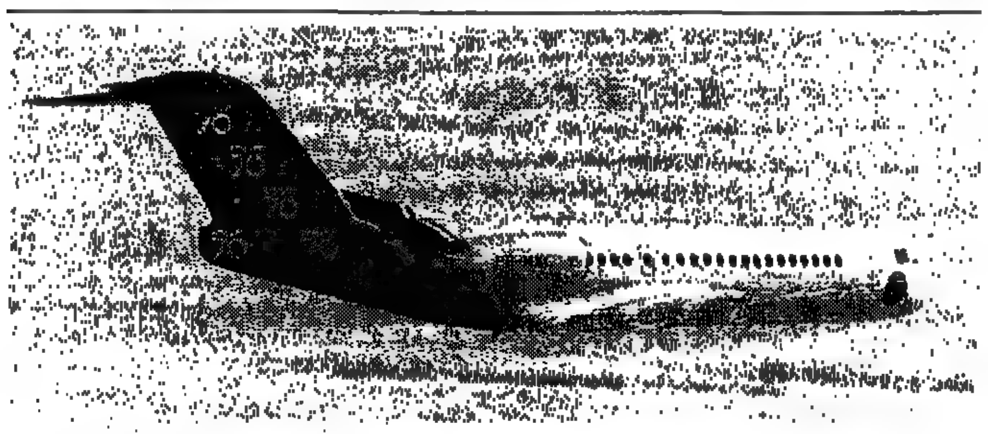
The trouble was, he went straight back to Washington, and announced the "deal".

The third step came on June 8, when EC foreign ministers agreed without debate to impose EC sanctions on the US on a handful of public procurement contracts, in retaliation for the equally token gesture by Washington to restrict EC access to about $19m (£12.3m) of contracts there.

The same clause was inserted in the decision which was in the original Article 29: it was "without prejudice to existing obligations".

"We believed everybody knew what that meant," a Bonn official said yesterday. "But the others did not realise that it applied to Germany."

Finally, the US asked for the German agreement in writing, and Bonn has balked at that. It will only give such a statement "in agreement with the Commission". In the current atmosphere, that seems unlikely.



Rolls-Royce Tay engines power the new, 79-seat Fokker 70 airliner

Fokker launches regional jet with orders won

By Paul Betts, Aerospace Correspondent

FOKKER, the Dutch aircraft manufacturer 51 per cent owned by Deutsche Aerospace, yesterday launched the production programme for its new Fokker 70 regional jet, having won $400m (£262m) of orders from Indonesia for the new 79-seat airliner.

The launch orders from the Indonesian carriers Sempati Air and Pelita Air Services, involving up to 20 aircraft, will also provide £70m of business for Rolls-Royce, the UK aero-engine group whose Tay 620 engines power the new Fokker twin-jet airliner.

The Fokker 70, which made its maiden flight in April, is a smaller derivative of the Fokker 100, also powered by Rolls-Royce Tays. The fuselage and tail section of the aircraft are produced by Deutsche Aerospace, the wings by Short Brothers of Belfast.

The new Fokker aircraft will intensify competition in the regional jet market, which has been badly hit by the financial troubles of smaller airlines but is now expected to recover strongly by 1998-2000.

It will compete directly against Avro International, the recently established regional jet joint-venture company of British Aerospace and Taiwan Aerospace.

The BAe-Taiwan venture, also unveiled at the Paris Air Show, plans to develop a lighter version of its RJ70 regional jet, to make it more competitive with the new Fokker 70.

Rolls-Royce, whose engines have traditionally powered Fokker jets, is now also trying to break into the Avro RJ market by negotiating with Taiwan Aerospace its participation in the BR700 regional jet engine programme with its German partner BMW.

In the large end of the commercial engine market, Rolls-Royce has also expanded at the air show its risk-sharing partners on the £400m development programme of its high-thrust Trent engine. Lucas, UK aerospace and car components group, is taking a 3.5 per cent share in the Trent programme.

Bernard Simon reports from Toronto: Air Canada and McDonnell Douglas are to study the feasibility of modernising the Canadian carrier's ageing fleet of DC-9 jets as an alternative to replacing them with new aircraft.

Air Canada operates 35 DC-9s, and predicts that the modernisation would add 15 years to their life. The work would include new engines and avionics, and extensive re-wiring. McDonnell Douglas would provide new warranties for the aircraft.

The two companies said yesterday that they might open the programme to other airlines wanting to extend the lives of their DC-9s.

Beijing Jeep is out of the thicket

Tony Walker on one of the first, and therefore 'model', investments in China

外商投资
Foreign Investment

MR FRANC Krebs, head of Chrysler's jeep project in China, is in expansionary mode, as the Americans might say. Having weathered early storms, the Chrysler joint venture is set for larger production runs, fresh models and possibly a new "green-field" works.

This is a long way from a gloomy period in the mid-1980s when it seemed that American Motors, the original foreign partner in the Beijing Jeep venture, was set to walk out over payment delays and staffing disputes: not to mention a huge cultural and professional divide between American managers and their Chinese counterparts.

The man who helped save the AMC venture in 1986 was Mr Zhu Rongji, then vice minister of the State Economic Commission. This is the same reformist Mr Zhu who has now emerged as senior vice premier in charge of the economy and the man tipped as a possible future premier.

The well documented Beijing Jeep saga*, marked something of a watershed for foreign investors in China in the early phase of the country's economic reform; although many of the problems that bedevilled the AMC project have certainly not been eradicated.

Because Beijing Jeep was one of the first joint manufacturing ventures in China it achieved "model" status. This is probably what helped save it in the end: desperate to attract foreign investment China could not afford a "model" failure.

Mr Krebs is cagey about profitability, saying merely that Beijing Jeep has been profitable for much of its nine years, and he views the period ahead as promising in a country where demand for vehicles of all sizes and dimensions is growing by leaps and bounds.

But problems persist, not least access to foreign exchange to pay for kits and imported machinery at a time of rapid expansion for the Chrysler-Beijing Auto Works joint venture (BAW is owned by the Beijing municipality).

Chrysler, which took over AMC in 1987, the year after faltering production began in Beijing, is anxious to keep building up its stake in the local joint venture to 50 per cent from the present 43 per cent. AMC with an original investment of $8m plus technical assistance took an initial 23 per cent share.

Zhu: helped save venture

Management problems have eased, Mr Krebs says, with a good working relationship at senior level. However, Chinese middle managers, used to operating in a strictly hierarchical and authoritarian system, are loath to show initiative lest they be criticised for possible mistakes.

Another problem, not anticipated by AMC and Chrysler in the early days, is job mobility. Previously, it was rare for Chinese workers and managers to change jobs since there was little scope for competition for talent. Now, a competitive market for skilled labour is developing and Chrysler, like every other joint venture partner, is caught up in it. "We tend to gold-plate people and they leave us," says Mr Krebs ruefully.

Beijing Jeep produces a range of four-wheel drive vehicles including copies of primitive Russian-designed military vehicles, plus the Jeep Cherokee which is proving a hot seller with supply barely keeping pace with demand. The company is scheduled to produce 37,500 Beijing Jeep 202 models this year, and 22,500 Cherokees compared with 20,000 in 1992.

Target production for 1995 is 100,000 vehicles for both models, but, as Mr Krebs observes, the size of the existing plant is placing limitations on growth. He believes that in time Beijing Jeep will be obliged to look at establishing a new facility, possibly in southern China at a cost of up to $300m.

Sensing an era of greater competition is dawning, Beijing Jeep is, for the first time, devoting resources to advertising. In the first three months of this year it spent more on marketing than it did for the whole of 1992.

The company has a network of about 20 dealerships and deliveries of spare parts are being speeded up. Before, distributors would be obliged to drive to Beijing every two or three months from outlying provinces to pick up supplies. Now parts are being delivered "every week or so" even to remote areas.

Chrysler, which fell into the China market with the AMC takeover, is congratulating itself for having a foothold in what is likely to prove a lucrative, if highly competitive area.

With just 7m vehicles spread thinly among China's 1.1bn population, and with more than 92 per cent of the country's roads unpaved, the future for Beijing Jeep would seem to be secure, even buoyant.

Beijing Jeep: The Short Unhappy Romance of American Business in China. By Jim Mann. Simon and Schuster, 1989

Kantor cool towards renewal of sanctions law

By Nancy Dunne in Washington

MR Mickey Kantor, US trade representative, is urging Congress to resurrect the administration's "fast-track" trade negotiating authority without tacking on to the legislation a renewal of Super 301, a provision much despised by the country's trading partners.

Super 301 requires the trade representative to list "unfair" trading countries and negotiate away their trade barriers. It was used sparingly in 1989 and 1990 – against Japan, Brazil and India – and then it expired.

The deadlines imposed by Super 301 requiring action, or a waiver of action on grounds of national interest, can reduce flexibility for trade officials. They have said that the imposition of sanctions during key negotiations such as the Uruguay Round could be highly damaging.

President Bill Clinton strongly endorsed a renewal of Super 301 during the election campaign last year, and Mr Kantor has not retreated from that position. However, his endorsement at a hearing on Monday was unenthusiastic.

Although promising to "work with" Congress on Super 301 at another time, he was quick to imply that the administration was moving aggressively without its help.

Senator Max Baucus, chairman of the Senate international trade sub-committee and a strong supporter of Super 301, told Mr Kantor he wished the representative would "more strongly embrace" the provision. Would it not give him "additional negotiating leverage" in the Uruguay Round?

UK cabinet group to discuss HK policy

By Simon Holberton in Hong Kong

MR John Major, Britain's prime minister, has called a meeting of his cabinet's Hong Kong committee for July 1 amid signs that the British government is losing patience with China over talks about the colony's political development.

Mr Chris Patten, Hong Kong's governor, will fly to London at the end of the month for the meeting, which officials say is likely to prove significant in determining the British government's policy towards Sino-British talks.

According to one official: "What ministers want to know is: Are these talks a total waste of time?"

Mr Patten's assessment is seen as pivotal in shaping the government's attitude towards the talks. The first four rounds of negotiations produced no significant developments and in the session which ends today little progress appears to have been made.

A Foreign Office official said yesterday that by the time the cabinet sub-committee meeting was held a sixth round of talks might have taken place and "by then we should have an idea of where they are going or not". The objective the cabinet committee agreed to at its meeting in April was for Sino-British talks to be concluded by the end of July. "This timetable either has to be reinforced or shifted," the official said. "The committee is unlikely to approve of policy being made by a process of drift."

Next month's meeting will bring together Mr Major, Mr Douglas Hurd, foreign secretary, Mr Malcolm Rifkind, defence secretary, and Mr Michael Heseltine, trade and industry secretary.

It comes at a time of increasing restiveness among Hong Kong pro-democracy groups who feel that Mr Patten is backtracking on his commitment to broaden democracy before Britain returns sovereignty to China in 1997.

The committee, which last met at easter when Mr Patten was in London, is however likely to approve the continuation of talks until the autumn and then decide whether to continue or pull out and present Mr Patten's legislative programme to the Legislative Council, Hong Kong's law-making body.

Bankruptcy rate falls in Japan

By Charles Leadbeater in Tokyo

THE FIRST fall in Japanese corporate bankruptcies for almost three years yesterday added weight to claims that the Japanese economy is nearing the bottom of its two-year downturn.

Corporate bankruptcies in May fell by 3.9 per cent from the same month last year to 1,113, according to a monthly report by the Teikoku Data Bank, a private research group. The report said the decline in the bankruptcy rate, the first for 32 months, was a tentative indicator of a moderate pick-up in the economy.

If May's decline in bankruptcies does mark the bottom of the recession it means Japanese business will have escaped with far fewer failures than during the mid-1980s.

During the weak economic patch of the mid-1980s caused by the yen's sudden appreciation against the dollar, the business failure rate rose to about 20,000 a year. During this downturn the failure rate has not risen above 14,000 a year.

The Teikoku report will fuel the debate within Japan about whether the recession is bottoming out. The government's Economic Planning Agency last week announced the economy had hit the bottom, a claim which the Industry Ministry has fiercely disputed and the Bank of Japan failed to support in its quarterly economic survey published last week.

However, the fall in the overall rate of bankruptcies masks important changes in the causes of business failures. The number of bankruptcies caused by the recession rose by 33 per cent to to 676, while bankruptcies caused by financial factors linked to the collapse of the bubble economy fell markedly.

An ominous sign was the first appearance since 1987 of bankruptcies caused by the yen's appreciation against the dollar, which is hitting Japanese exporters. There were three bankruptcies in May caused by the yen's rise.

The recession is increasingly claiming larger companies, such as Hanix Kogyo, the construction equipment maker which failed recently. The combined liabilities of bankrupt companies rose by 15.7 per cent in May to Y661.2bn (£4.1bn) compared with the same month last year. The average debts of bankrupt companies were Y594m, about 21 per cent up on the previous year.

Other economic indicators published yesterday supported the Bank of Japan's caution about the economy as long as private consumption and corporate investment remains subdued. Sales at Tokyo department stores were 9.3 per cent down in May compared with the same month last year, the 15th consecutive monthly fall.

Private sector machinery orders in April fell 26.8 per cent from the previous month to Y786.9bn, a fall of 18.5 per cent from April last year. This brings to an end a brief revival in machinery orders in the early months of the year.

Technical factors cut trade surplus

By Charles Leadbeater

JAPAN'S customs-cleared trade surplus dipped slightly in May largely as a result of temporary technical factors, according to figures released by the Finance Ministry.

Nevertheless, the 0.1 per cent fall in the surplus in May, to $7.7bn (£5bn), will be welcomed by the Japanese government as evidence that the surplus is reaching its peak after growing for almost two and a half years.

The fall may help to defuse tensions between the Japanese and US governments during talks in the next few weeks about measures to reduce the surplus. The talks are due to come to a head before the Tokyo summit of Group of Seven leading industrialised countries in the first week of July.

However, news of the decline did little to stem the continued rise of the yen against the dollar. In Tokyo trading the dollar closed at Y105.03, down from its Monday close of Y105.20, after it had briefly touched a new low of Y104.83 in the morning.

The yen's strength hit the Tokyo stock market Nikkei index which fell by 351.47, or about 1.7 per cent, to 20,045.88. The market's fall was a reflection of the damage a higher yen may do to the profits of Japanese exporters.

The yen's continued strength, combined with the stock market's fall close to the critical 20,000 mark, will increase pressure on the Bank of Japan to cut interest rates.

Mr Yasushi Mieno, Bank of Japan governor, on Monday ruled out an interest rate cut to prevent the yen rising. However, the central bank announced yesterday it would hold a meeting of its regional branch managers on July 5 and 6. These meetings have paved the way for a cut in the discount rate in the past.

Mr Tadashi Okuda, chairman of the Federation of Bankers' Associations, called on the monetary authorities to make "timely and flexible" responses to the yen's surge after warning that the stronger yen threatened to dash hopes of an economic recovery.

The drop in Japan's merchandise trade surplus was because of a faster growth of imports. Exports in May rose 5.6 per cent from the same month last year to $26.85bn, while imports rose 8.2 per cent to $19.12bn.

Japan's trade surplus with the US fell by 2.1 per cent from the year before to $2.77bn.

Finance Ministry officials said the fall was because of fewer working days in May compared with the same month last year, as well as longer vacations taken during the "golden week" holidays. These cuts helped to reduce exports.

Cambodian secessionist leader seeks refuge

By Victor Mallet in Phnom Penh

PRINCE Norodom Chakrapong, leader of a five-day-old Cambodian secessionist movement, took refuge in Vietnam yesterday in a move which apparently heralds the end of his "autonomous zone" in the east of the country, United Nations officials said.

A UN military observer saw the prince and his followers drive over the border in Svay Rieng province in a convoy of 20 vehicles and hand their weapons to Vietnamese border guards. Prince Chakrapong, a deputy prime minister in the communist government installed by Vietnam in 1979, had announced the secession in protest at the outcome of the UN-organised election last month.

The ruling Cambodian People's party won only 51 of the 120 seats in a new constituent assembly, compared with 58 taken by the royalist opposition party Funcinpec led by Prince Ranariddh, Prince Chakrapong's estranged half-brother. The CPP said it was the victim of "massive irregularities" in the polling, but UN and international observers certified the election as free and fair.

Prince Chakrapong's attempt to defy the UN and fragment the country further (the Khmer Rouge runs its own zone on the Thai border) was undermined by the evident lack of public support.

UN officials, foreign diplomats and Cambodians yesterday welcomed the retreat of Prince Chakrapong, who has long been regarded as one of the most unsavoury members of the corrupt communist administration.

Their optimism was tempered, however, by the knowledge that the CPP leadership in Phnom Penh initially winked at Prince Chakrapong's stance and is still challenging the results of the election. Hundreds of terrorised Funcinpec party workers are reported to have fled to Phnom Penh from the east.

Members of the new assembly, convened on Monday, are supposed to write a constitution and form a new government within three months.

Mr Hun Sen, the prime minister, is now dissociating himself from the secessionists and was credited on Monday with persuading his brother Mr Hun Neng, governor of the populous province of Kompong Cham, to bring it back under central government control.

Mr Uch Kiman, a government spokesman, said yesterday that four of the seven provinces in the "autonomous zone" were not even aware that they had been included.

Prince Ranariddh portrayed the issue as a political dispute rather than an argument between princes.

Peace talks hear of Clinton-Assad letters

By Jurek Martin in Washington

THE TENTH round of the Middle East peace talks began in Washington yesterday with the disclosure that President Bill Clinton and President Hafez al-Assad of Syria have exchanged letters, presumably on the future status of the Golan Heights.

A senior US official returning from Europe with Mr Warren Christopher, the secretary of state, was quoted as saying that the exchanges were "very substantive," but declined to furnish details.

They may cover possible US guarantees that the Golan Heights, if returned to Syria, not be used as a base for attacks on Israel, as well as how much territory Israel might be persuaded to give up.

The chief Syrian negotiator, Mr Muwaffiq al-Allaf, insisted yesterday that Israel must surrender all the Golan Heights, seized in the 1967 war, or accept responsibility for the breakdown of the peace talks.

His Israeli counterpart, ambassador Mr Itamar Rabinovich, said Israel had told Syria it accepted "the element of withdrawal" as part of the peacemaking process but would not address "the extent of the withdrawal until certain questions are answered".

Bilateral contacts between the US and other delegations have been frequent. Mr Christopher conferred in Vienna, where he addressed the UN human rights conference, with the Syrian, Egyptian and Israeli foreign ministers.

Abiola claims Nigerian win

NIGERIANS waited anxiously yesterday for official confirmation that business baron Mr Moshood Abiola had won the country's presidential election, Reuter reports from Lagos. The National Electoral Commission said it was carefully checking results from Nigeria's 30 states before announcing the winner of Saturday's poll.

Leading newspapers were in no doubt, reflecting victory claims by Mr Abiola and his Social Democratic party. "Abiola surges ahead," said the Daily Times, Nigeria's biggest-selling newspaper.

However, his opponent, Mr Bashir Tofa Tofa and his National Republican Convention yesterday called for the results of the poll to be cancelled because it had been "massively rigged", according to state radio.

Gen Aideed clenches his fists as he speaks to the press at his Mogadishu headquarters on Monday about UN raids on his arms dumps

Somali leader may stand trial, says UN

By Michael Littlejohns, UN Correspondent, in New York

GENERAL Mohammed Farah Aideed, the Somali warlord accused of directing an ambush that led to the deaths of 23 Pakistani United Nations soldiers, will be arrested and brought to trial if an official inquiry confirms the allegations, the UN said yesterday.

Mr Kofi Annan, under-secretary general for UN peacekeeping operations, told reporters: "Whoever is found responsible will be apprehended, whether general or foot soldier."

The investigation ordered by the UN Security Council following the June 5 incident was continuing and if Gen Aideed were held responsible, an attempt would be made "to bring him in".

At a press conference called to explain the bloody incident last weekend in which many Somali civilians were killed by Pakistani troops, Mr Annan said that non-lethal riot control methods had been considered. The situation "got out of control" when Somali demonstrators tried to tear down a UN barricade.

● The Italian government said yesterday it had received assurances that tighter controls would be placed on the Pakistani peacekeepers in Somalia, Reuter adds.

Mr Fabio Fabbri, defence minister, who was in Mogadishu yesterday, "has received precise assurances on the use of Pakistani forces in a role and with equipment more in keeping with the demands of the situation," Mr Beniamino Andreatta, foreign minister, told parliament.

Call for Banda to step aside

MALAWI opposition groups yesterday claimed victory in a referendum over the one-party rule of President-for-life Kamuzu Banda and demanded he step aside for a coalition government of national unity, Reuter reports from Blantyre.

Unofficial counts by the United Democratic Front (UDF) which it said were based on returns by more than half the registered voters, gave between 73 and 86 per cent of the poll to those campaigning for western-style democracy.

In a speech to hundreds of cheering, singing supporters at his headquarters in Blantyre, Mr Bakili Muluzito, UDF leader, formally claimed victory in mid-afternoon.

But independent analysts cautioned that many votes remained to be counted, particularly in conservative, remote rural areas ripe for intimidation. They pointed to sweeping successes by Mr Banda in the central region, where his ruling Malawi Congress party appeared to be taking 70 per cent of votes. The opposition seemed to be registering landslides in the south, the most populous area, and the north.

Mr Chakufwa Chihana, newly-freed trade unionist leader of the Alliance for Democracy (Aford), which teamed with the UDF to fight Mr Banda, told reporters in the capital Lilongwe that Mr Banda should resign and become the figurehead of a transitional government to prepare for multi-party elections. "We will give him a smooth exit," he said.

Poppies bloom amid Pakistan's economy and politics

Narcotics make for a black economy half that of the official one, writes Stefan Wagstyl from the Khyber Pass

WHEN drug dealers operating in the Khyber Pass felt threatened by a Pakistani government road-building scheme earlier this year, they attacked the construction crews with machine-guns, mortars and a heat-seeking missile.

Nine men were killed in the raids which were meant to prevent the government from bringing an all-weather road to the remote Tirah Valley, the home of poppy fields and scores of heroin laboratories.

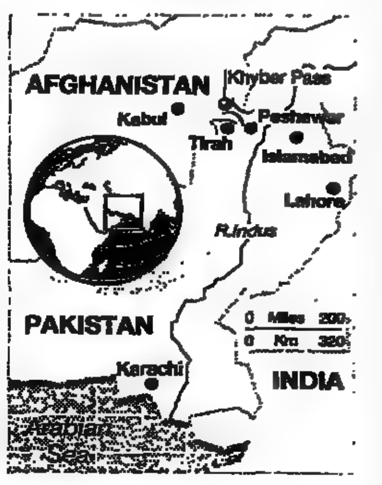
Officials have stopped the building work while they try to persuade local village chiefs to guarantee the workmen safe passage.

The tribesmen of the Khyber Pass have never taken kindly to outsiders on their territory, as the British colonial rulers discovered a century ago. But today the weaponry at their disposal enables them to project their power beyond the mountains lying on the Pakistan-Afghanistan border.

While the poppies are mostly grown on the Afghan side of the border, the profits accrue to dealers who are mainly Pakistanis. Their fortress-like homes dot the road along the Khyber Pass. Outside there are watchtowers; inside, opulent houses decked in marble.

The dealers' influence reaches into Afghanistan through the guerrilla commanders who need drugs money for buying arms and ammunition. It also penetrates far into Pakistan, distorting the country's economy and politics.

The shock of violent incidents



such as the Tirah road attacks, the swelling population of drug addicts in Pakistan and strong pressure from the US and other developed countries is at last forcing some officials to admit to the scale of the drug lords' influence.

At a recent UN-sponsored drug abuse conference in Islamabad delegates from Pakistan concluded: "The massive inflows of money financed by drugs have given birth to a new political situation in Pakistan.... The profits generated from illicit narcotics activity have contributed to a huge black economy, half the size of the official one."

Poppies have been grown in Afghanistan for centuries, but never in the past on a large scale. The tribesmen preferred marijuana, and heroin was virtually unknown until the advent of war in Afghanistan in 1979.

But in the last decade a region which encompasses eastern Iran, Afghanistan and Pakistan has become the world's second largest producer of illegal opium with an estimated 1,115 tonnes last year, mostly in Afghanistan, according to US government figures. This is well short of the 2,500 tonnes produced in south-east Asia, including Burma's Golden Triangle. But south-east Asian output is falling, albeit slightly; Afghan farmers are rapidly increasing their production. This year's crop is estimated to be 20 to 50 per cent higher than 1992's.

The initial stimulus for increasing output came from a crackdown on opium-growing in Middle Eastern countries, including Turkey and Iran. The war in Afghanistan then prompted anti-Soviet mujahideen guerrillas to raise production and to invest in heroin laboratories to increase their revenues to buy arms. The fight against communism was seen as so important that officials in Pakistan, from where many mujahideen were supplied, turned a blind eye to the proliferation of heroin.

Despite the Soviet withdrawal, the mujahideen groups still need money because they are now fighting each other. Elsewhere in the country, peace has permitted farmers to go back into their war-ravaged fields.

Mr Habimullah Khan, a farmer in eastern Afghanistan, says villagers have no choice about growing poppies since they bring ten times as much money as other crops. "This year we planted more poppies than before. Next year we will plant even more," he says.

Poppy growers in eastern Afghanistan: a centuries-old practice now feeds into a sophisticated network

Moreover, the collapse of the Soviet Union has eased the drug smugglers' transport problem. The traditional route has been south through Pakistan to the port city of Karachi and from there by air and by boat to the rest of the world. But the borders of the former Soviet republics in central Asia have opened up to trade – so trucks laden with legitimate goods such as dried fruit are being used to smuggle heroin into Russia and from Russia into western Europe.

Dealers in the tribal areas lying on the border with Afghanistan dominate the trade. Under agreements dating back to Pakistan's birth as an independent state in 1947, the government's writ does not run in the tribal areas. Instead, they are administered by tribal chiefs, who choose which laws, if any, they will apply.

Plentiful handouts from the drug dealers ensure that anti-narcotics laws are enforced weakly, if at all. Mr Altaf Gauhar, editor of the Muslim, a leading Pakistani newspaper, alleges that almost all the politicians representing the tribal areas in the national assembly in Islamabad are drug smugglers.

A frequent target of such accusations is Mr Haji Ayub Afridi, a former truck driver turned millionaire businessman and politician who owns the largest of the forts on the Khyber Pass. Mr Afridi's house was raided two years ago in the course of a drugs investigation. But neither then nor later was any evidence found linking him to narcotics smuggling. He denies any involvement in the trade.

A study commissioned by the US Central Intelligence Agency this year found that heroin trading had penetrated "the highest political circles" in Islamabad and named as a suspected drug smuggler Mr Sohail Zia Butt, a brother-in-law of the prime minister, Mr Nawaz Sharif.

Alleged dealers are also active at the top of the business community in Karachi. There are many suspected top drug dealers in investigators' files but officials cannot act for lack of firm evidence. Western anti-drugs experts retort that evidence is lacking because of the drug lords' political protection. "They are allowed to work behind screens," said one.

Mr Ralph Seccombe, Pakistan field adviser for the United Nations drug control programme, says the whole country is already paying the price for permitting drug dealers to flourish. "Pakistan has over 1m addicts. That's 6m people who are affected if you include their families. But it's 100m who are suffering from the political and economic consequences."

Fresh effort to restart Bosnia talks

By Frances Williams in Geneva and Laura Silber in Belgrade

INTERNATIONAL mediators for former Yugoslavia meet leaders of the warring parties *today in Geneva* in an increasingly desperate search for workable political solutions that will end the violence in Bosnia.

Lord Owen, for the European Community, and Mr Thorvald Stoltenberg, for the United Nations, said yesterday they expected the meetings to pave the way for a reconvened international conference on ex-Yugoslavia, probably in Geneva, which would bring together the participants in last August's high-level London conference.

President Slobodan Milosevic of Serbia, Croatian President Franjo Tudjman, President Momir Bulatovic of Montenegro and Mr Alija *Izetbegovic*, the Bosnian president, will meet together with the mediators. Mr Izetbegovic has so far refused a joint meeting with Mr Radovan Karadzic, the Bosnian Serb leader, and Mr Mate Boban, leader of the Bosnian Croats.

Lord Owen said yesterday that there was no alternative to the Vance-Owen peace plan for Bosnia on the table, though it was clear there would have to be "adjustments". "An overall cessation of hostilities will only come in the context of an overall (political) bargain," he said.

Today's encounters will also discuss the potentially explosive situation in *Serb-held* Croatia. Relations between Serbia and Croatia "hold the key to stability and peace throughout the region," Lord Owen told reporters.

In Sarajevo, the military commanders of the three warring communities agreed on a ceasefire, to take effect today, as fighting intensified throughout the republic.

Previous agreements, however, have collapsed almost immediately and there was little optimism that the latest one would last.

Even as the three military chiefs met at Butmir airport, fresh clashes were reported on most battle fronts.

Sarajevo radio said at least eight people were killed in Gorazde, a besieged UN-safe area in south-eastern Bosnia.

Serb forces have been on the offensive for three weeks near the town, which is the last Moslem stronghold in the region. Bosnian Serb forces are *reportedly poised to seize it*, flagrantly violating its UN-protected status.

The military summit took place after Mr Boutros Boutros Ghali, the UN secretary general, recommended the deployment of at least another 7,500 troops to Bosnia.

But western diplomats yesterday worried that the additional forces and heavy equipment would not lend enough muscle to the 9,000 troops already on the ground in Bosnia.

Some 9,000 peacekeepers assigned to protect UN relief convoys have failed to stem the bloodshed and have been constantly undermined by Serb and Croat *forces seeking* to block the passage of emergency food aid.

Russia criticises military mandate

By Patrick Blum in Vienna

RUSSIA is willing to send troops to protect Moslem enclaves in Bosnia provided there is a clear framework and mandate from the United Nations security council, Mr Andrei Kozyrev, the Russian foreign minister, reiterated yesterday in Vienna.

Russian troops, however, would not be sent to "besieged fortresses under fire". Mr Kozyrev suggested a new UN Security Council resolution would be needed to define objectives clearly.

In a separate statement made at the UN World Conference on Human Rights taking place in the Austrian capital, Mr Kozyrev also warned of the growing dangers of nationalism and of adopting a selective approach to human rights. "We cannot accept references to the non-interference principle ... when violations of individual rights and freedom are involved," he said.

Kozyrev: promised troops

He warned that policies of ethnic cleansing, as had happened in the former Yugoslavia, posed a threat to democracy worldwide.

He said the lack of attention to the rights of national minorities "risks damaging the Baltic region and turning Europe into a zone of ... lower and double standards."

In a day dominated by developments in eastern and south-eastern Europe, conference delegates also heard a call for UN action in the Yugoslav province of Kosovo.

Mr Sali Berisha, president of Albania, called for the UN to place Kosovo under UN control and declare it a neutral zone. He warned of the growing dangers of war stemming from Serbian actions in Kosovo, whose population is 95 per cent ethnic Albanian. He called for further tightening of sanctions against Serbia.

The conference unanimously endorsed an appeal by Mr Haris Silajdzic, the Bosnian foreign minister, for immediate action by the UN to end atrocities in Bosnia.

In an emotional statement *that galvanised delegates*, Mr *Silajdzic criticised* the lack *of* adequate international reaction in the face of increasing atrocities in Bosnia. He called on the conference "to stop the genocide in at least one town". He was referring to the Moslem enclave of Gorazde, which has been declared a "safe area" by the UN but which is besieged by Serb forces.

UN called on to revise its rules on peacekeeping

THE United Nations must work out new rules for peacekeeping in crises like the former Yugoslavia and Somalia, the *Stockholm* International Peace Research Institute (Sipri) said yesterday, Reuter reports from Stockholm.

The collapse of totalitarian communism has led to civil wars which the world body is powerless to *stop* at present, Sipri experts said at a news conference to launch its 1993 year book.

Authors of the year book, considered the standard reference work on world arms and disarmament, commented that in 1992 the UN moved towards a policy of imposing or promoting peace rather than maintaining the status quo. "The problem with Yugoslavia is that there is no peace to be kept, and *enforcement activity* cannot come about because there is no outside, agreed policy," said spokeswoman, Ms Regina Cowen-Kemp.

Sipri said the number of military personnel involved in peacekeeping had soared last year to more than 62,000 from about 15,000 in 1991 but warned against a tendency to see peacekeeping as a panacea for all the world's conflicts.

"The expectations are exaggerated. Peacekeeping should be used only in the last resort. Preventive diplomacy and crisis management are more important," said Mr Adam Daniel Rotfeld, Sipri director.

World military spending fell by 15 per cent in 1992 but civil wars flared in 29 different places, according to Sipri. It gave no overall figures, but officials said industrialised countries spent about \$540bn (£350.6bn) in 1992, about 65 per cent of the world total.

Mr Rotfeld said the collapse of totalitarian regimes in eastern Europe and the former Soviet Union had raised, then dashed, hopes of an improvement. He said that 1992 had brought neither well-being nor *respect for democracy and the* rule of law in former Yugoslavia and the Soviet Union.

On a positive note, Mr Rotfeld mentioned the 1992 Start II treaty in which the United States and Russia agreed to limit their strategic nuclear forces, and the chemical weapons treaty opened for signature in Paris this year.

Azeris recall Brezhnev era leader

By Steve LeVine in Baku, Azerbaijan

AZERBAIJAN'S Brezhnev era KGB and communist party chief, Mr Heidar Aliyev, made a remarkable political comeback yesterday, winning election as chairman of the former Soviet republic's parliament.

The election makes Mr Aliyev, 70, nominally the second most powerful leader to Azerbaijan President Abulfaz Elchibey.

But diplomats and other foreign observers in Baku, the capital, believe that the wily Mr Aliyev has carved himself out a significant chunk of Mr Elchibey's power and that new elections are likely. Given the present despondent political mood, Mr Aliyev probably would be Azerbaijan's strongest presidential candidate.

The political and economic deterioration was demonstrated when Baku newspapers yesterday announced that Mr Elchibey had postponed complete introduction of Azerbaijan's new currency, the manat.

The government, which began circulating the manat on June 2, had announced that the rouble would be invalidated on June 15, but the move now has been delayed at least until July 1. "We need to wait until the situation stabilises. As soon as that happens, the reforms will take place," said Mr Elman Rustamov, deputy chairman of the ministry of foreign economic activity.

On Monday the US embassy recommended that American nationals leave the country, and many foreign businessmen, including oil company employees, have departed on flights to Istanbul and Moscow.

It was not clear whether Azerbaijan's political upheaval was over. Mr Aliyev's comeback was forewarned a week ago, when rebel troops seized Azerbaijan's second city, Gyanja, and demanded Mr Elchibey's resignation. Though the troops, led by a charismatic businessman, Mr Surat Huseynov, have voiced their support for Mr Aliyev, they now have taken control of up to half the Caspian Sea nation, and are within 70 miles of Baku.

Mr Elchibey, whose popularity has steadily waned since he came to power about a year ago, has threatened to use force to defend his government. But it is unclear how much loyalty he still enjoys in the military, or among the Azeri population of 7m.

The key factor in Mr Elchibey's loss of popularity have been the lack of economic improvements and a string of military defeats in the war in the enclave of Nagorno-Karabakh. On Monday night ethnic Armenians from Nagorno-Karabakh finally agreed to a brokered settlement. But at the same time ethnic Armenian troops appeared to be encircling yet another important city in the region, Agdam, which actually lies outside Nagorno-Karabakh.

The continued fighting was bound to put new pressure on Mr Elchibey, and give Mr Aliyev a stronger hand ultimately to topple him.

Russian constitutional talks given new deadline

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin's constitutional convention will adjourn today for a 10-day break during which experts are likely to try to come up with either a compromise draft con*stitution or temporary rules* for new elections.

President Yeltsin had earlier set the convention a June 16 deadline to finalise a draft constitution.

However, Mr Vladimir Shumeiko, first deputy prime minister, announcing yesterday that the convention would resume on June 28, said that the top priority of the presidential camp was early parliamentary elections.

For this purpose, an electoral bloc was being formed with the aim of uniting all the country's pro-reformist forces to win as many seats as possible in a new parliament. Founders of the bloc include Mr Yeltsin's closest colleagues and leaders of the radical democrat movement, and will be led by the Russian president himself.

The president is also expected soon to order the creation of a conciliatory commission to work *on the presidential* and parliamentary drafts for a new constitution between now and next week.

Meanwhile, a number of influential delegates at the convention yesterday began circulating a plan for a new constitution to be adopted by a newly-elected parliament, instead of the existing Congress of People's Deputies.

The plan includes rules for early parliamentary elections and a temporary division of powers between president and parliament.

This temporary move would be until a new parliament adopts a new constitution setting out all these provisions. "An election campaign is already under way in Russia," Mr Gennady Burbulis, a close ally of Mr Yeltsin, told reporters at the Kremlin yesterday.

While recognising that the existing parliament is unlikely *to adopt a new constitution*, the plan for new elections would also have to be approved by the Congress of People's Deputies *in order to be* constitutional.

The Congress is unlikely to agree to its own dissolution however, leaving the president with the choice of violating the existing constitution unless he can get deputies to change their mind.

A group of 315 deputies is already trying to gain signatures of another 30 deputies so it can threaten to resign and deprive Congress of a quorum unless it agrees to vote itself out of office.

Ukraine's leader adopts Yeltsin tactic in struggle

By Chrystia Freeland in Kiev

THE Ukrainian president, Mr Leonid Kravchuk, yesterday *called for* a referendum on Ukraine's constitutional structure and early parliamentary elections.

Mr Kravchuk's proposal, which was immediately rejected by parliament but is scheduled to be put to the vote again today, is in part a reaction to the political demands of striking coal miners in the Donbass region of eastern Ukraine.

Like Russia's president, Mr Boris Yeltsin, who was strengthened by Russia's April referendum, Mr Kravchuk is playing for high stakes. He said he would interpret a no vote in the proposed ballot, to be held sometime this year, as a public expression of no confidence and would step down.

However, like Mr Yeltsin, the unpopular *Ukrainian* leader is gambling on receiving a public endorsement which would strengthen his hand in the bitter struggle between the various branches of government in Ukraine.

Mr Kravchuk's nemesis, Mr Leonid Kuchma, the prime minister, also raised the stakes yesterday, suggesting that he will seek emergency powers over the economy even greater than those he asked for – and was refused – in May.

Mr Kuchma said that the Ukrainian economy would collapse unless one branch of government is given nearly absolute control.

Dealers set for Germany to cut rates

By James Blitz in London and David Buchan in Paris

FOREIGN exchange dealers believe the Bundesbank may cut short-term interest rates at its council meeting tomorrow after one of the central bank's leading members said German money supply might have fallen within acceptable targets last month.

Mr Johann Wilhelm Gaddum, Bundesbank directorate member responsible for credit market operations, said yesterday the country's M3 money supply growth may have moved within the Bundesbank's stated target range of 4.5-6.5 per cent on an annualised basis.

In the first four months of this year M3 money supply overshot the Bundesbank's target, expanding at a seasonally adjusted and annualised 7.0 per cent.

However, in an interview with the AP Dow Jones news agency Mr Gaddum said "money supply developments could indeed move back within the corridor, in line with the economic cooling-off".

Dealers speculated that slower money supply growth could give the Bundesbank its first opportunity in more than a month to cut rates at its council meeting.

The news helped the dollar close up more than a pfennig on the day, at DM1.6375, while sterling gained 1.25 pfennigs to close at DM2.4935.

In Paris yesterday, Mr Helmut Schlesinger, Bundesbank president, congratulated France on having lower interest rates than Germany, due to its better inflation record.

He told the Senate that France had relative "economic and monetary stability, while in Germany we cannot boast about the same stability in prices" – an indication that the Bundesbank is still concerned about Germany's inflation rate, which is a couple of points above France's.

But Mr. Schlesinger said the Bundesbank had at least "kept the D-Mark stable for 40 years and intends to go on doing so".

He quashed any speculation that the German and French central banks might establish a close bilateral link. An independent Bank of France has been approved by the National Assembly, and action by the Senate is awaited.

Lengthy and close co-operation between the French and German central banks had taken on a "particular dimension" during the franc crisis, but this needed no further reinforcement beyond the links that bound all EC central banks, Mr Schlesinger said.

Romanian IMF deal delayed by budget

By Virginia Marsh in Bucharest

ROMANIA will have to amend its 1993-1994 budget and make further spending cuts before a new stand-by arrangement with the International Monetary Fund can be signed, Mr Misu Negritoiu, deputy prime minister, said in an interview yesterday.

The delay in signing a new IMF agreement to replace the previous one, which expired in March, is holding up some $3bn in foreign credits.

Mr Negritoiu, who has responsibility for economic reform, said the IMF put the 1993 budget deficit at 5 to 6 per cent of GDP, rather than the 4 per cent projected in the budget approved in April.

He said that if parliament accepted the amendment before the summer recess, a new agreement could be negotiated by July.

● A nationwide train drivers' strike severely disrupted services for the second day running yesterday.

SNCFR, the railway administration, declared the strike illegal and pledged to take action against union leaders. Under Romanian regulations, one-third of services must be maintained even during a general strike.

The train drivers' union called its 32,000 members out on strike on Monday, demanding a 40 per cent pay rise rather than the 16 per cent offered by the government.

French waste-paper collectors jammed traffic in parts of Paris yesterday morning in a protest over German imports, which have driven down the prices they obtain from paper manufacturers using recyclable products, Reuter reports. They blocked several main roads with trucks and piles of old paper and cardboard. Paper collection companies say 27,000 jobs in the industry are threatened.

California attacked on unitary taxation

By Andrew Jack

FT CALIFORNIA'S system of a unitary tax based on the worldwide income of multinational companies came under criticism from a senior official of the UK's Inland Revenue at the Financial Times' international tax conference in London yesterday.

Mr Leonard Beighton, deputy chairman of the Inland Revenue, said California's approach could only have "arbitrary and bizarre" results. His comments follow the threat of retaliatory action against Californian companies with UK operations by the chancellor of the exchequer last month if the state does not lessen its demands.

He said the Revenue had written to these companies to assess the extent of tax credits of which they would be deprived, but stressed it hoped instead for co-operation.

Mr Beighton stressed the importance of maintaining internationally agreed tax principles, especially the importance of the arm's length principle of taxing companies by the profits made in a country and not on worldwide income.

Mr James Mogle, a partner with US lawyers Sutherland, Asbill & Brennan and former international tax counsel at the US Treasury, told the conference that Congress had not so far taken the British threat seriously. But he warned that any attempt to impose retaliatory action would be seen by Congress as an attempt to over-ride the arrangements negotiated in the current US-UK tax treaty. That could jeopardise other treaties.

Mr David Carr, from the European Commission's financial institutions and company law directorate, said the EC was pursuing plans to extend proposed tax directives to cover enterprises resident and subject to corporate tax in any member states, with progress expected "before too long".

Matra fails to block rivals' aid

MATRA, the French car and aerospace company, yesterday lost a long court battle against a large state aid package approved by the European Commission for a rival joint venture created by Ford and Volkswagen, Reuter reports from Luxembourg.

The European Court rejected its appeal against Brussels' decision in mid-1991 to allow the Portuguese government to give Ecu547m ($658m) to the Ford/VW venture in Setubal.

The court said the Commission had done all that was required of it in investigating the case under EC rules on state aid. About three-quarters of the aid is money which Portugal received from Brussels in EC development funds.

VW and Ford are teaming up to build luxury, family-oriented vans that will rival Matra's Renault Espace model.

SPD leaders ready to support Telekom sale

By Ariane Genillard in Bonn

THE LEADERSHIP of Germany's opposition Social Democrats intends to support a government plan to privatise Deutsche Telekom, the state-owned telecommunications monopoly, and circumvent opponents within their own party ranks.

Mr Hans Bernrath, leader of the party's team which negotiated the privatisation plan with the government two weeks ago, said SPD members of parliament would not vote on the plan, but would simply be canvassed on the issue.

SPD politicians favouring the privatisation fear that a formal vote could result in the parliamentary party rejecting the plan by a narrow majority.

The planned informal poll will enable the government to start drafting the bill, which it intends to put before parliament by October.

The decision follows intense negotiations among SPD parliamentarians over a privatisation agreement signed between representatives of the SPD and the government on May 28, after a year of difficult negotiations. The government needs opposition support in order to change the constitution to pave the way for privatisation.

The plan is to create a state holding company under which three independent joint stock companies would operate: Deutsche Telekom, the telecoms monopoly, the Post Office and the Postal Bank. This structure was devised to win the SPD team's approval.

However, it has yet to gain support among many SPD parliamentarians, some of whom fiercely oppose the outright privatisation of Deutsche Telekom and of the postal services.

As with other privatisation projects in Germany, the future of Deutsche Telekom now depends on the ability of the SPD parliamentarians to overcome their internal divisions. A large number of them oppose privatising Deutsche Telekom on the grounds that a private company would no longer fulfil its obligations towards poorer and less populated regions. They are also representing the views of the post and telecoms union which fears losing members.

The telecoms ministry, for its part, has offered to keep a 50 per cent-plus-one share stake in Deutsche Telekom, ensuring the state some say over its management. The government also argues that creating a holding company will ensure maintenance of union power.

Shift in EC funds urged

By Tim Coone in Dublin

PRIORITIES in disbursing EC structural funds in Ireland need to be changed significantly, says a a report published yesterday by the Dublin-based Economic and Social Research Institute (ESRI).

The report, commissioned by the Irish government's Department of Finance, recommends more resources be directed at training early school-leavers and the long-term unemployed. It says the emphasis of rural development funds should be shifted from extensive grazing to forestry and industrial policy should give greater emphasis to supporting medium-sized Irish-owned companies than to foreign investment.

The recommendations are likely to have a significant influence on the government, and on EC budget controllers, as the former draws up its spending plans for an estimated I£8bn ($12bn) that is expected to be available to Ireland in EC structural and cohesion funds between now and the end of the decade.

The report notes that the inflow of EC structural funds to Ireland over the past two years was equivalent to 3.5 per cent of GNP.

Ministers get line on phone plan

By Andrew Hill in Brussels

EUROPEAN Community ministers today have their first chance for detailed debate on ambitious plans to open all telephone calls to competition by 1998 – and possibly their last chance to agree a deal on funding for the promotion of advanced television services in Europe.

Telecommunications ministers, meeting in Luxembourg, are set to discuss the European Commission's proposed deadline of January 1, 1998, for full liberalisation of domestic and international calls.

Commission officials say the plan is supported by an influential quartet of Britain, Germany, France and the Netherlands, but several smaller member states may press for a delay.

Meanwhile, advocates of an EC wide-screen and high-definition television (HDTV) strategy are pinning their hopes for a deal on the replacement of the hardline Mr Edward Leigh as UK minister responsible for telecoms in last month's ministerial reshuffle.

To the irritation of the Commission, and of the Dutch and French governments, British opposition, spearheaded by Mr Leigh, has helped force changes to the original HDTV strategy. Mr Leigh has been replaced by Mr Patrick McLoughlin, a former junior employment minister, who will have to decide whether to accept compromise plans for Ecu228m ($278) of EC funding up to the end of 1996.

British diplomats have played down the change in minister, pointing out that Mr Leigh himself accepted the substance of the plan at the last ministers' meeting in May, while insisting that the UK could not sign up to a plan worth more than Ecu150m.

Officials from Belgium, which will take over the EC presidency in July, have already indicated that if a deal is not struck today, they see little room for improving the current compromise to meet British objections.

Bigger picture, Page 13

Unification changes the place of women in the new German home

Judy Dempsey finds that women in the east feel they have paid a high price

"UNIFICATION has not been kind to the women of eastern Germany," says Ms Barbara Pfeiffer. In 1989, demonstrations in her home town of Leipzig spawned the people's revolution which brought down the Berlin Wall. Two years later Ms Pfeiffer lost her job when the chemicals factory where she had worked for 25 years closed down.

Ms Pfeiffer, however, was sufficiently determined – and lucky, she says – to find a part-time job with a local construction company. Many women, who have borne the brunt of the surge in unemployment in eastern Germany since unification, have not been as fortunate.

The official April unemployment total of 15.4 per cent hides the extent of the problem. Including those on job creation and training schemes and those who only have part-time jobs, about 30 per cent of the workforce are without full-time work. Two thirds of the unemployed are women.

By contrast, East Germany guaranteed employment to more than 90 per cent of women, who accounted for 49 per cent of the labour force in 1989. "The regime needed us," explains Mrs Pfeiffer. "It wanted to show there was equality under the communist system and it wanted us to work because many had fled before the Wall went up in 1961. We also needed the money, even though we were paid less than men," she adds.

Although the chemical plant where she worked turned out low-grade products, health standards were almost non-existent, and few employees were motivated by a management chosen for their loyalty to the communist party, "it was a job," says Ms Pfeiffer.

The state's abundant provision of child-care made it easy for women to work. Until 1989, 80 per cent of children under three had a crèche place, 95 per cent of pre-school over-threes attended kindergarten, more than 80 per cent of those aged six to ten received day-care after school, and 90 per cent of children attended cheap holiday camps.

There are fears that the number of kindergartens will soon be reduced. "Some people complained that the kids would be indoctrinated by the stupid communists," says Ms Gaby Schwartz, a 37-year-old East Berliner. "But the child-care system in western Germany appals me."

In the western states, 2.3m children compete for 600,000 partially subsidised state child-care places. Generally, however, many women employ nannies, or stay at home with the children.

According to the federal ministry of women and youth, there is an overcapacity of kindergartens in eastern Germany. "About 120 places exist for 100 children. The local communes will have to decide where to cut back." It said east German women would in future have to pay for child care.

Such a move would come on top of the scrapping of the former East Germany's generous child benefits. Unemployment – and the abolition of those benefits – has slashed the birth rate from 2.5 children per family to 1.3, as low as in western Germany and one of the lowest in Europe.

Unification has also impinged on the former East Germany's liberal abortion laws. "In the old days, women in eastern Germany had one big freedom: abortion on demand. We could not understand why it was illegal for West Germans to have abortions," says Helga Kokoschka, an unemployed 28-year-old mother of two children.

Abortions were a common form of birth control, as in all of eastern Europe. Yet East German women saw abortion on demand not in ethical or moral terms, but as a political issue where women had complete freedom of choice. "The state never dared interfere. This was our one area of freedom," says Ms Pfeiffer.

Thus the German constitutional court's ruling last month that abortion should remain illegal and only available under certain conditions has angered many east German women. "The new unified state is imposing its will on us," says Ms Pfeiffer. "Our choice to work and control our own lives have disappeared."

East German women have had difficulties coming to terms with the multiple challenges of unification. Ms Eva Kolinsky, professor of German studies at Britain's Keele University, who is studying the position of women in Leipzig since 1989, says an entire generation of women have lost out as a result of unification. "Those in mid-career, in their 30s or early 40s, will find it very difficult to re-enter the labour market," she says.

Ms Kolinsky is hopeful, however, for the next generation. "More women are attending university. They see qualifications as the key to entering the market, when it picks up," she says. "But the price has been high. An entire generation has lost their social status in the new Germany."

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Enso-Gutzeit returns to black in first four months

By Hugh Carnegy in Stockholm

ENSO-GUTZEIT, the Finnish pulp and paper group which announced a large investment in eastern Germany last week, moved back into the black in the first four months.

The group returned a profit after financial items of FM86m ($16m), compared with a loss of FM76m last time.

Group sales were up 21 per cent to FM4.09bn, while operating profits rose from FM496m last year, equivalent to 15 per cent of net sales, to FM964m, or more than 23 per cent of net sales, in the first four months this year.

The improvement was attributed to the effects of the devaluation of the Finnish markka in autumn, higher capacity utilisation, and improved productivity.

However Mr Jukka Härmälä, chief executive, warned it was unclear whether the upward trend would continue.

He said uncertainty had increased lately over the key factors of economic conditions in Europe and price trends for forestry products.

Excess supply had so far kept markets tight, Mr Härmälä said.

Enso spent almost FM1.8bn on capital expenditure in the first four months, mainly on completing a pulp mill and a combined cycle power plant in Finland.

It said the emphasis would now switch to international operations where the main investment is a DM800m ($493m) recycling plant east of Leipzig in Saxony.

Anger over Fondiaria L1,058bn rights issue

By Haig Simonian in Milan

INSURANCE analysts have voiced almost unanimous disapproval to Monday night's surprise announcement of a L1,058bn ($724.16m) rights issue by Fondiaria, Italy's third biggest private-sector insurer. The insurer reported 1992 group losses of L578bn.

"This is a return to the bad old days of ignoring minority shareholders, just at a time when Italy is supposed to be changing," said one angry London-based broker.

Shares in Fondiaria, controlled by the debt-laden Ferruzzi Finanziaria (Ferfin) holding company, fell sharply in Milan yesterday in response to the 2-for-1 rights issue, priced at L6,500 a share.

Fondiaria stock fell by over 10 per cent to L24,101 from L26,843 as investors cut their losses by selling their holdings.

The rights issue, which will halve Fondiaria's total group debts of L2,368bn, is seen as a barely veiled debt-for-equity swap by Ferfin's five main creditor banks, which are underwriting the deal.

Gaic, the listed holding company which owns about 40 per cent of Fondiaria, is not expected to take up its rights. Gaic is 80 per cent-owned by Ferfin and the heirs of Mr Camillo De Benedetti. Ferfin owns about 11 per cent of Fondiaria independently of Gaic. Neither is thought to be in a position to acquire additional shares.

On that basis, the five underwriters – Mediobanca, Banca Commerciale Italiana, Banca di Roma, Credito Italiano and Istituto Bancario San Paolo di Torino – will end up with about 30 per cent of Fondiaria. The underwriters' stake could be appreciably higher if minority investors in Fondiaria fail to take up their rights.

Separately, Mediobanca owns about 15 per cent of Fondiaria, while Generali, the Italian insurer with which it is closely allied, has about 7 per cent.

The fact that the rights issue is roughly the same size as Fondiaria's L1,105bn group debts to banks has reinforced fears that control is effectively being transferred to Ferfin's main bankers without launching a public tender offer, in the first step in the gradual dismemberment of the Ferruzzi empire. Such transfers of control have been made more difficult under new stock market rules, but remain possible.

Although Fondiaria's future is still unclear, the group is not expected to survive in its present form in the long term.

● Separately, shares in Ferfin and its subsidiaries continued falling heavily on the Milan stock exchange, bringing down the stock of the group's five main creditor banks and most of the market in their wake.

Trading in Montedison, Ferfin's main industrial operation, was suspended for the second day running as dealers failed to fix a price between vendors and purchasers owing to the weight of selling pressure. The stock was eventually fixed at L779 for a fall of 20.1 per cent. Shares in Ferfin also plunged, by 10.4 per cent to L593.5 from L662.3 on Monday, while the Gaic holding company, which controls the Fondiaria insurance group, quoted at L815 on Monday failed to find a price.

Italian regional banks link up

By Haig Simonian

TWO of Italy's biggest regional banks have agreed to take small equity stakes in each other in what could be the first step towards the creation of a private sector financial group.

Credito Romagnolo, the Bologna-based bank in which Mr Carlo De Benedetti's Cir group is one of the most important shareholders, is to buy about 10 per cent of Cassa di Risparmio di Bologna, the city's savings bank. In return, CRB will buy up to 5 per cent of Credito Romagnolo.

Both sides have indicated the swap promises to be the prelude to a gradual integration of financial services in one of Italy's industrial heartlands. The two banks specialise in retail services and lending to small and medium-sized businesses, which form the economic backbone of the Emilia Romagna region.

"The agreement is the first step towards the creation of a big Bologna bank," said Mr Gianguido Sacchi Morsiani, chairman of the savings bank. To launch their co-operation, the two banks will rationalise duplicated operations in some financial services and study setting up joint ventures in others.

Credito Romagnolo, in which France's Banque Nationale de Paris has over 6 per cent, has about 350 branches and deposits of L46,000bn ($31bn). CRB has 110 branches and deposits of L11,500bn.

Rothschild pays the price of a Swiss scandal

Ian Rodger looks at an affair which has forced the family to bolster bank reserves

"If it had been anyone but the Rothschilds, they would not have been able to survive."

That comment, from a leading Zurich banker, sums up the reaction to a scandal that has held the Swiss financial community spellbound for the past year. In the latest chapter, the bank revealed yesterday it had written off SFr270m ($190.10m) provision for losses on bad loans.

The story began last July when Rothschild Bank, the Zurich-based affiliate of N. M. Rothschild of London, announced it had to liquidate its SFr63.5m of hidden reserves to help cover SFr100m in loan losses.

This was an immense loss for a bank with only SFr185m in capital and was supposed to be in the business of managing rich people's funds, not lending.

A few days later, Mr Jürg Heer, the bank's credit manager, was arrested and charged with defrauding the bank. More details later dribbled out. The amount of the losses was more than SFr200m, undermining the bank's capital base, and most of it had been loaned to one client, breaking Swiss law.

In October, Mr Heer, who had been freed by the Zurich police pending completion of investigations, made a series of sensational charges in the Swiss press. The bank was setting him up as a scapegoat, he said, and he would do his best to implicate others.

He said the bank had been operating a "criminal system" to help rich Italians hide their fortunes from the tax authorities.

He claimed Rothschild had been involved in various schemes, even including the payment to the alleged murderers of Mr Roberto Calvi, the former chairman of Banco Ambrosiano found hanging under Blackfriars Bridge in London in 1982.

Sir Evelyn: net loss of customers 'not dramatic'

The bank yesterday again denied the allegations: "We are convinced that criminal proceedings will prove that Heer's statement as to a criminal system within Rothschild Bank is untrue."

The charges have caused immense damage to the reputation not only of the Zurich bank, but also to the Rothschild family.

"Obviously, we have lost some clients," says Mr Guy Wais, the general manager hired last autumn to straighten the bank out.

However, the Rothschild family closed ranks, injected SFr120.5m of new capital into its Zurich problem child and set about implementing the 100-odd recommendations for tightening up procedures made in a study by Coopers & Lybrand.

Operating profits have been maintained and Mr Wais says the net loss of customers is "not dramatic". Sir Evelyn de Rothschild, the chairman, writes in the annual report that the bank is "strongly placed to meet the challenges of the future".

A full picture of what actually went wrong must inevitably await the completion of investigations, but the broad outlines are now clear.

The bank's troubles date from 1981 when Mr Gilbert de Botton, its original general manager, left to work for Mr Jacob, now Lord, Rothschild's bank in London (which has no association with the Zurich bank).

Baron Elie de Rothschild, head of the French family and then chairman of the Zurich bank, hired Mr Alfred Hartmann, a Swiss banker, to replace him. By all accounts, neither Baron Elie nor Mr Hartmann was particularly attentive to the business, and a triumvirate of line executives, including Mr Heer, were left largely on their own.

In the subsequent years, the bank would get into a couple of serious scrapes, making an illegal loan to the Zug-based international commodity dealers Marc Rich in 1984 and buying some SFr11.8m worth of Jacob Suchard shares for its own account in 1991 when it was advising on a takeover bid for the confectionery group.

The bank's most fateful adventure, however, was financing the projects of Mr Karsten von Wersebe and Mr Wolfgang Stolzenberg, two German Canadians with an impressive record leading private consortia of European investors in North American property deals.

Rothschild, through Mr Heer, provided loans to companies associated with these two, mainly Castor and York Hannover. The documentation for the loans, which a lawyer for Mr von Wersebe has shown to the FT, reveals very large front-end commissions.

Moreover, on occasions, Mr Heer would observe that Rothschild's own lending exposure to the York Hannover-Castor companies was at its legal limit, so would propose organising some Rothschild clients into a private consortium to provide the loans through an offshore company.

In 1991, when the squeeze in the North American property market became acute, the lending increased to a level that began to arouse suspicion at the bank. And early last year, when both York Hannover and Castor collapsed, Rothschild found itself with a huge portfolio of worthless loans.

What remains at issue is who committed illegal acts. Mr Heer has admitted skimming off SFr30m in commissions on his lending activity, an amount that is remarkably close to the commissions shown in Mr von Wersebe's documentation.

Rothschild has maintained that Mr Heer was acting alone and hoodwinked the bank's directors and auditors. Baron Elie and Mr Hartmann, who was deputy chairman, have since left the board, and the bank's former auditors, KPMG, Fides Peat, have been replaced.

Outsiders cannot understand how one man could have committed a relatively small bank to SFr270m in loans without other directors being fully briefed.

The Banking Commission's investigation is aimed at discovering whether others, perhaps including some officers still at the bank, were complicit.

Investigations are being seriously hampered by the disappearance of Mr Heer. He fled Switzerland in December.

Mövenpick may be exposed to SFr5m claims

By Ian Rodger in Zurich

MOVENPICK, the Swiss hotel and restaurant chain, yesterday said that Mr Wolfgang vom Hagen, its former chief executive officer, may have exposed it to claims of up to SFr5m ($3.4m).

The directors said they have over a dozen cases involving staff appointments and dismissals and other alleged violations of company law committed by Mr vom Hagen that could lead to claims. The statement alleged that Mr vom Hagen had given orders to external consultants without the knowledge of the management board, leading to charges of about SFr30,000 per working day in 1992 but no results.

France leads in European state sell-offs, study finds

By Peter Martin in London

EUROPEAN governments plan to privatise between $100bn and $150bn worth of state-owned companies in the next five years, according to a new study by Morgan Stanley, the US investment bank.

The biggest wave of privatisations will come in France, says the report, where the government plans to sell off assets valued at between $30bn and $40bn. Next comes the UK, with $20bn, Italy ($10bn-$15bn), Sweden ($10bn), Germany ($8bn) and Spain ($5bn-$8bn).

The $150bn of assets to be sold is equivalent to 10 per cent of total European stock market capitalisation, or 2.5 per cent of EC gross domestic product.

The likely privatisations are concentrated in a few sectors, especially telecommunications (between 15 and 20 per cent of assets to be sold), energy and utilities. Together, these make up over half the value of planned privatisations. There will also be substantial sales of state-owned banking and insurance institutions.

Mr David Roche, one of the authors of the study, said he expected governments to be able to find buyers for these shares as long as interest rates fell and they offered appropriate incentives to buyers together with a stable political and regulatory framework.

European Privatisation by Richard Davidson and David Roche, Morgan Stanley, 25 Cabot Square, London E14 4QA.

INTERNATIONAL COMPANIES AND FINANCE

Nat Semi reports record earnings as sales top $2bn

By Louise Kehoe in San Francisco

NATIONAL Semiconductor, the US chip maker which last year restructured its global operations, reported record sales and earnings for 1992-93, lifted by a strong fourth quarter.

Net earnings for the year ended May were $130.3m, or 98 cents a share, compared with a loss of $120.1m, or $1.24, a year earlier, after restructuring charges of $149.3m. Sales rose to $2.01bn from $1.72bn.

"Passing the $2bn milestone in sales with record earnings represents a real resurgence of both growth and profitability at National Semiconductor," said Mr Gilbert Amelio, president and chief executive.

"I am gratified by the success of our efforts to rebuild the company, and confident that we will be able to maintain our momentum."

For the fourth quarter, National reported net earnings of $46.2m, or 35 cents a share, on sales of $557.9m, compared with net earnings of $27.5m, or 22 cents, on sales of $491.5m in the same period last year.

"The past year was a period of tremendous progress at National Semiconductor. We completed a large portion of our planned restructuring activities, including significant expansion of our manufacturing centres at Arlington, Texas, and Greenock, Scotland," Mr Amelio said.

Over the past year, National cut its workforce by 3,800 people to 23,400, cut back production in California and sold an assembly and test facility in Bangkok.

Commenting on market conditions, Mr Amelio said that National expected orders to weaken during the traditionally slow summer quarter, but that sales may drop only marginally below the fourth-quarter level.

BCE sells 16.5% stake in Talisman

By Robert Gibbens in Montreal

BCE, Canada's biggest telecommunications group, is quitting the energy business with the sale of 16.5 per cent of Talisman, formerly BP Canada, for C$326m (US$251m).

BCE's 10.9m Talisman shares are being sold to a consortium of investment houses made up of Burns Fry, Gordon Capital, Nesbitt Thomsom and Toronto Dominion Securities at C$30 a share.

The investment group proposes to resell the shares through the Montreal and Toronto stock exchanges with settlement due June 21.

BCE, which is the parent company of Northern Telecom, diversified into energy via TransCanada PipeLines in the mid-1980s. In the past three years, it has sold its TCPL shares, but was left with control of Encor, TCPL's exploration unit.

British Petroleum sold its 57 per cent stake in Talisman in May 1992 for C$373m.

Exxon slowly recovers from shrinking pains

David Lascelles looks at the world's largest oil group as it emerges from restructuring

Exxon prefers to do things without much fuss. So when Mr Lee Raymond took over from Mr Lawrence Rawl as chairman of the world's largest oil company in April the message was very much: business as usual.

Mr Raymond, the company pointed out, had worked for six years as Mr Rawl's president, and the last thing he was going to do was shake Exxon up.

It would be surprising if Mr Raymond did institute big changes since Exxon is emerging from a substantial restructuring caused by the squeeze in oil. What it wants is a period of calm to rediscover its roots.

Under Mr Rawl, Exxon abandoned its skyscraper headquarters in Manhattan's Rockefeller Centre for a faceless office overlooking one of the many freeways leading out of Dallas in Texas, the home of US oil.

It pulled out of the bold diversification ventures that were fashionable in the early 1980s. It even retreated from Los Angeles, the city of the car, because it could not make enough money there.

The restructuring has been a painful process, not helped by the 1989 Exxon Valdez disaster and the ensuing multi-billion dollar clean-up. Much of it was implemented by Mr Raymond, who was seen in some quarters of the US oil industry as Mr Rawl's hatchet man.

Exxon's shrinking pains were brought on by the collapse of the oil price in the late 1980s. In common with all the leading US oil companies, Exxon had become bloated in a market where growth provided the escape route out of difficulty. This time, Exxon was forced to cut costs, and find ways of doing more with less.

Over the past four years, it has got rid of refineries in Europe and North America, shut down over 4,000 service stations around the world, and cut its workforce from a 1989 peak of 104,000 people to 95,000. All told, Exxon's cutbacks have reduced costs by nearly $1bn a year and resulted in sell-offs of a similar order.

The restructuring ate deep into profits last year, when net income fell 15 per cent to $4.8bn. But this figure conceals a strong final quarter which analysts say shows that the strategy is beginning to work. In the first quarter of this year, earnings were flat.

When Mr Raymond took over as chairman, he told shareholders: "There are great risks associated with our industry. But the corollary is that there are also many rewards and opportunities for companies which are able to adapt to change."

The most obvious result of the restructuring is that Exxon is a smaller company. This year Exxon expects to produce 1.7m barrels of oil a day, refine 3.6m and sell 4.8m. Twenty years ago, Exxon was a 6m b/d company all the way through. But Exxon expects to make more money the new way, and it intends to keep up its annual investment programme of nearly $1bn a year, though the growth prospects are abroad rather than on its doorstep.

The new Exxon will not try to compete across the breadth of the US market, but only where it is strong and can operate with low costs. Apart from Los Angeles, it has retreated from South Florida, and it plans to cover the whole of the US with just three large refineries and one small one. Its US exploration effort has been curtailed to three main areas, all offshore: Alaska, California and Mobile Bay.

Exxon is still keen on the North Sea, particularly the Norwegian sector where it is the largest non-Norwegian acreage holder. It is especially interested in gas, believing that continental markets will develop stronger needs.

The most exciting prospects, Exxon believes, lie in the Asia Pacific region where it is making the heaviest investments. The company is expanding its refinery in Thailand, participating in a large power generation project in Hong Kong, and is developing oil and gas prospects off Malaysia. There is a possibility to explore for oil onshore in China.

One thing Exxon has turned its back on is diversification out of its traditional lines of business. This is partly because of costly lessons learnt from its forays into minerals and energy during the last decade, partly because it sees little change in the world's energy picture, with oil, gas and coal dominating.

The biggest change between now and 2010, it believes, will be driven by rising electricity demand in the Third World. This means that natural gas will gain in importance as more gas-fired power stations are built. But it also means that coal will be able to hold its 25 per cent share of energy consumption over that period.

The loser will be oil because of sluggish growth among its biggest consumers in the industrialised countries.

Deutsche Bank merges US securities divisions

By Patrick Harverson in New York

DEUTSCHE Bank, Germany's biggest banking group, announced yesterday it was combining its US securities activities into a single subsidiary, Deutsche Bank Securities.

Previously, Deutsche Bank's securities operations in the US were divided between three units: the Wall Street equity research and brokerage firm C. J. Lawrence, the international securities and asset management businesses of Deutsche Bank Capital, and the treasury market primary dealership Deutsche Bank Government Securities.

Under US banking and securities industry regulations, the businesses of C. J. Lawrence and Deutsche Bank Capital were kept strictly apart, preventing the German bank from co-ordinating its activities between the two units, and hindering the overall development of its securities business in the US.

The new subsidiary, however, will operate under Section 20 of the Glass-Steagall Act, which allows banks to engage in corporate securities dealing and underwriting activities if revenues from these activities do not exceed 10 per cent of the company's gross US-based revenues.

Mr John Rolls, Deutsche Bank chief executive officer in North America, said the reorganisation was to ensure that a co-ordinated strategy for its US securities operations could be developed under one roof.

He said the regulatory restrictions involved in having two key units, DBCC and C. J. Lawrence, operate under separate banking and securities laws had been burdensome.

The newly-united Deutsche Bank Securities will take aim at the rapidly expanding market in cross-border securities, underwriting, broking and dealing. It hopes to help feed the growing appetite of US investors for European securities, and benefit from the growing interest in US stocks among European investors.

Mr Rolls said the US operations of Morgan Grenfell, the UK investment bank 100 per cent-owned by Deutsche Bank, would not be affected by the reorganisation.

Deutsche Bank Securities will be based in New York, with about 500 staff. It will be run by Mr James Moltz, currently chairman and chief executive of C. J. Lawrence, and Mr Horst Risse, head of DBCC.

Time Warner to raise $750m in Lyons issue

By Patrick Harverson

TIME Warner, the US entertainment group, plans to raise $750m through an issue of Liquid Yield Option Notes (Lyons), a form of bond convertible into stock.

The money from the issue, together with available cash, will be used to pay off more expensive Time Warner debt. Although the issue has yet to be priced, the Lyons will pay a lower interest rate than the 8¾ per cent convertible subordinated debentures that are to be redeemed. The company said the Lyons issue was part of its refinancing programme to lower the cost of its debt and strengthen its balance sheet.

Earlier this year, Time Warner redeemed $3.6bn worth of convertible preferred stock in a share-buy back.

Correction

Unitas

The Financial Times yesterday incorrectly reported the 1992 result for Unitas, the Finnish bank. The company returned a loss of FM2.7bn ($491m).

Rising yen deals fresh blow to Nissan

The Japanese carmaker's president talks to **William Dawkins and Michiyo Nakamoto**

NISSAN recently aroused a stir when it became the first Japanese carmaker since the second world war to announce a plant closure.

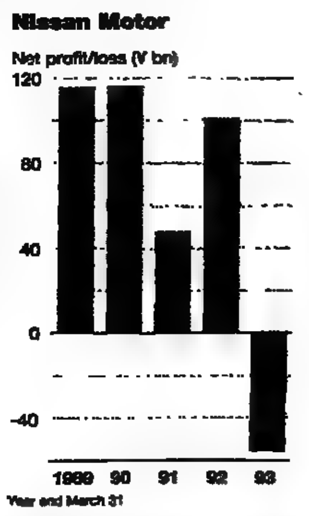
The pain, while mild by the standards of the wholesale job cuts experienced by the US and European car industries, is not yet over, it was revealed yesterday.

Mr Yoshifumi Tsuji, Nissan president, said his restructuring plan had not taken account of the blow to export earnings dealt by the yen's unexpectedly steep rise.

This was the first time that the yen had appreciated significantly against both the dollar and the D-Mark, hitting Nissan's price competitiveness in both the US and Europe, its main export markets, he explained.

Nissan's options included price rises and another round of cost-cutting, although there was no definite plan yet, he said.

This comes after a year in which Nissan made its first loss as a listed company and had to announce the shutdown of the Zama car assembly plant near Tokyo, the main part of a plan to shed 5,000 jobs out of Nissan's 53,000 Japanese workforce over the next three years.



The company will not make any redundancies but will rely on natural wastage, yet the need to shrink the business is a heavy blow to the pride of Japan's second largest car and truck group.

Nissan's workforce might already seem lean by European car industry standards, a reflection of the fact that Japanese carmakers sub-contract more components to outside suppliers than do European manufacturers.

Nissan reckons that subcontracted components represent 70 per cent of its manufacturing costs, as against the 60 per cent or so claimed by French car makers.

Even so, Mr Tsuji warned that he might have to wield the knife again.

Nissan had cut costs in previous downturns, "but then we tended to put on more weight, more fat than before" when a recovery materialised, he said.

This time, Nissan would need to stay smaller, said Mr Tsuji, a man of gravity whose engineering background is said to have earned him the respect of Nissan manufacturing staff at the sharp end of the job cuts.

The closure of Zama would not have a big impact on Nissan's financial position, Mr Tsuji says. But clearly Nissan believes the move was essential to adjusting to what it fears is a long-term market decline.

"Until now we could always expect an increase in demand and we set our production capacity accordingly. But we can no longer expect demand to meet the 2.5m units per year capacity Nissan has." The three-year plan aims to slim capacity to 2.3m units annually.

The Japanese car market looked set for a recovery in the next six months or so, but Mr Tsuji saw no sign of an upturn in Europe, where Nissan sales volumes fell 10.4 per cent in the first five months of the year in a market down 17.3 per cent.

Asked about the outlook for his Japanese competitors, Mr Tsuji said that the 11 car and truck makers could all survive on condition that they did not poach each other's market specialities.

This contrasts with a widespread view in Japan that the nation's car industry will need deep restructuring.

The other cloud on the Japanese car industry's horizon is the growing trade friction with the US and the European Community.

Tensions with the Clinton administration posed more of a problem than did the EC's fresh bout of anxiety over Japanese car imports and local production, Mr Tsuji said.

Local content for Japanese carmakers was lower in the US than in Europe and Mr Tsuji recognised the need to increase that content in the face of the tensions.

NISSAN CAR SALES

	1992	% share	1991	% share	% change 92/91
USA*	414,011	5.0	412,368	5.0	+0.4
West Europe	437,839	3.2	433,218	3.3	-0.3
Japan	885,848	19.9	999,662	20.5	-11.4

*Including Infiniti. Source: Automotive Industry Data

Attempts to reduce Japanese car export quotas to the EC and to count Nissan UK's production in the quotas were 'unfair and unreasonable,' Mr Tsuji said. 'We should be regarded as a fully-fledged member of the EC'

Yoshifumi Tsuji: does not deny Nissan has reached a watershed

Here, it was a strength for Nissan to have a Mexican plant which exported engines and transmissions to Nissan's car assembly plant in Tennessee.

Vehicle demand in Latin America was so strong that Mr Tsuji saw no room for Nissan Mexico to export vehicles to the US.

The European Commission's attempts to reduce Japanese car export quotas to the Community and to count Nissan UK's production in the quotas were "unfair and unreasonable," he said.

The pressure for tighter quotas, mainly exerted by France and Italy, was a response to the much steeper fall in European car demand than had been anticipated in the 1991 Japanese car imports accord.

However, Nissan had no intention of changing its UK business plans in the light of all this. "We should be regarded as a fully-fledged member of the EC," Mr Tsuji said.

Like other Japanese carmakers, Nissan was studying the fast-growing Chinese market. But Mr Tsuji was cautious about Nissan's ambitions there. "We still do not know how aggressive we should be in the Chinese market. The future of China is still uncertain," he said.

Clearly, Nissan will think hard before embarking again on the breakneck expansion of the past. Mr Tsuji does not deny that the Japanese group is at an important watershed.

Toyota may use Ford components in its cars

TOYOTA will start design-in development with Ford Motor's automotive development group in a deal which could lead to the Japanese car group using Ford components in its cars for the first time, writes Michiyo Nakamoto in Tokyo.

Through the design-in development agreement, Toyota will be studying whether Ford's cruise control system might be appropriate for use in its own cars, Toyota said.

The Japanese company already buys components such as shock absorbers and radiators from General Motors, for use in its cars manufactured both in the US and Japan.

Toyota cited the need to co-operate with foreign companies and to study what components could be bought from foreign companies as an important factor behind its decision. Toyota currently uses cruise control systems developed in Japan by its main Japanese components suppliers such as Nippon Denso. Growing trade friction with the US, however, has forced Japanese carmakers to consider buying more components from US manufacturers.

Joint Miramar bid hits valuation snag

By Simon Holberton in Hong Kong

MR Li Ka-shing and Citic Pacific's joint bid for Miramar Hotel and Investment has hit a snag with Miramar's senior executives claiming that the bid undervalues the hotels and property group by up to HK$2.5bn (US$343m).

In a letter to shareholders, Mr Young Bing-Ching, Miramar director and general manager, said the overture from Mr Li and Citic Pacific, Beijing's main investment arm in Hong Kong, was not friendly, as Mr Li has claimed, and that it undervalued the company. He urged shareholders not to sell until they had received the opinion of an independent valuer.

Last week, Mr Li and Citic launched a cash bid for Miramar of HK$15.5 a share and HK$8.50 a warrant, valuing the company at HK$8.7bn. The market's initial reaction was that the offer was too low and Miramar's shares have since been trading above the offer. Yesterday they closed at HK$16.70.

Mr Young claimed in his letter that Miramar's property assets alone were "good enough to support [the company's] shares at HK$20".

He said that Miramar was close to reaping the benefits of the work it had done in developing ties on the mainland.

Neither Citic or Mr Li had any comment to make on Mr Young's statement.

Minnesota Brewing moves bottling line into China

By Tony Walker in Beijing

MINNESOTA Brewing Company, brewer of Landmark beer, is shifting one of its bottling lines to China under a Yuan37.5m ($6.6m) agreement with the Zhengzhou Gold Star Beer Factory in the country's central Henan province.

"More bottling lines will be moved here when we finish the first phase of expansion," said Mr Li Jing, product promotion manager of the Zhengzhou brewery.

Under the agreement, MBC will transfer its slack production lines to Zhengzhou, increasing output there to 150,000 tonnes from the present 100,000 tonnes. MBC's contribution will amount to Yuan14.8m.

The Zhengzhou brewery will keep its Gold Star brand, but will use Landmark packaging for the additional 50,000 tonnes.

Consortium bids for top Polish cement producer

By Christopher Bobinski in Warsaw

MANAGEMENT and workers, backed by a consortium of Polish banks and foreign investors, have offered to purchase the Gorazdze works, the country's largest and most modern cement producer.

The bid, which is being considered by Poland's privatisation ministry, is in competition with a three-year effort by CBR, the Belgian cement company, to purchase the plant.

The CBR offer, which includes the purchase of the Strzelce Opolskie cement works nearby, has been resisted by the trade unions at Gorazdze which want to see control of their plant stay in Polish hands.

The consortium's offer marks the first time that shop floor resistance to a foreign takeover has been transformed into a rival bid backed by Polish banks and foreign investors willing to take a minority stake.

The rival offer would see 35 per cent of the plant's equity go to management and employees while a further 16 per cent would be taken up by the Polish Development Bank and 10 per cent would go to the Bank Przemyslowo Handlowy from Krakow. Both banks are state owned.

Another 10 per cent would be purchased by Warta, a privatised insurance company, and 9 per cent by a British investment group. The US Congress financed Polish American Enterprise Fund is interested in purchasing a 10 per cent share in Gorazdze while the remaining 10 per cent would be sold through a public offer.

Gorazdze reported sales worth 1,017bn zlotys ($59.5m) last year with net profits of 65bn zlotys and is looking for sales to increase by 7 per cent this year. It produced 1.9m tonnes of cement, or 11.6 per cent of Poland's cement output, last year and accounted for a quarter of the country's cement exports.

US triggers disclosure revolution

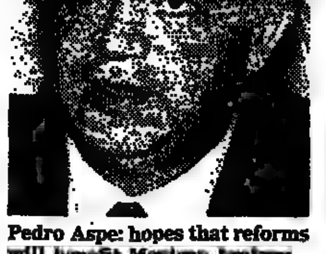
Latin American companies are changing their ways, says Damian Fraser

WHEN Telebras, Brazil's state-owned telephone company, makes its planned $500m offering of American Depositary Receipts later this year, it will join 34 Latin American companies listed on Wall Street. Five years ago there were none.

The transformation is a clear illustration of the extent to which foreign investment is being encouraged to support companies' capital plans and plug the gaps left by Latin America's weak capital markets and low savings ratios.

The phenomenon is most widespread in Mexico, where total foreign investment in the stock market is $27.5bn, of which more than half is in US-traded ADRs. While this is around a fifth of Mexico's stock market capitalisation, analysts believe foreign investment accounts for more than 50 per cent of the volume of the most widely traded shares.

The result is that US investors, usually through purchases of ADRs, dictate events in the Mexican market. Stock markets in the US open before Mexico's, and the performance of the ADR of Telmex, the telephone monopoly, in New York often dominates Mexico's market.



Pedro Aspe: hopes that reforms will benefit Mexican brokers

When Cementos Mexicanos (Cemex) bought the Spanish cement companies Sanson and Valenciana last year, US investors rushed to sell, worried at the prospect of the Mexican company becoming 40 per cent Spanish in terms of sales.

Mr Gustavo Caballero, Cemex finance director, says that US analysts did not believe a Mexican company was capable of taking such a bold step into foreign businesses.

However, the dependence on foreign capital might improve the way some Latin American countries are run and analysed. Once controlled by just a few dominant shareholders, companies in the region often ignored minority investors.

"Latin American companies need a shake-up in the way they disclose information and what they say to the market," says Mr Terence Mahony, of Baring America Asset Management.

A growing number of companies are responding to US analysts' requests for information, and under US regulations face more stringent disclosure rules than they do at home.

On a recent holiday in New York, the head of the Mexican company Interceramic visited investors to explain his strategy – a move that would have been unthinkable a few years ago. Banamex (Mexico's largest bank), Bancomer (the second largest), Cemex and others have hired public relations firms in the US, and employ investor relations executives.

Local broking houses are changing their practices. In Brazil companies used to be valued according to price-to-book value. But with the growing presence of foreigners, price-to-earnings value analysis has become more prevalent. Similarly, local brokers rarely made earnings forecasts, preferring to rely on historic earnings. Now almost all produce forecasts.

Even governments are beginning to wake up to the international competition their stock markets face. Chile recently reduced from three years to one the minimum period that foreigners had to hold initial capital in a stock before selling. Mexico has unveiled a series of reforms, allowing international stocks to be listed in Mexico and bringing regulations closer to US levels.

Mr Pedro Aspe, Mexico's finance minister, hopes that the reforms will bring share trading activity back to Mexico. This would enable local brokers to earn commissions from trading in Mexican stocks, since more foreign investment would be made in the underlying stock market in Mexico and not in the ADRs.

Foodland to merge unit with NZ chain

By Bruce Jacques in Sydney and Terry Hall in Wellington

RATIONALISATION is continuing apace in the Australian and New Zealand grocery industries, with two deals announced yesterday worth a combined total of about $A130m (US$81m).

Foodland Associated, the Australian grocery group, will merge its New Zealand operations with those of Progressive Enterprises, one of the country's biggest supermarket chains.

The proposal follows the purchase by Foodland of a 38.6 per cent, NZ$128.2m (US$69.7m) stake in Progressive, formerly held by fellow Australian group Coles Myer. Progressive will pay NZ$101m for Foodland's New Zealand retail and wholesale assets by issuing 54.6m shares at NZ$1.85 each.

Progressive said that with dividend entitlements and timing differences, the price was equal to the NZ$2 a share paid by Foodland for Coles Myer's shares in Progressive.

The deal will make Progressive a subsidiary of Foodland, raising the latter's shareholding from 43 to 57 per cent.

The combined group would account for about 34 per cent of New Zealand's supermarket sales, making it the second largest such organisation in the country.

● Davids Holdings, Australia's biggest food wholesaler, paid $A37.8m for a 19.9 per cent stake in its South Australian rival, Independent Holdings.

Hungary deal for Belgian developers

IMMOBILIERE de Belgique, the large Belgian property group, has paid BFr74m ($2.2m) for a 35 per cent stake in Core, a Hungarian property developer, Reuter reports from Budapest.

The Belgian company has also committed at least a further BFr260m towards the construction of a business complex in Budapest.

Core has applied for a permit to build a business complex on an 18.6 hectare site in Budapest, the company said.

Immobel said that one of the German shareholders of EGLB Beteiligungs - a private holding company in which Immobel has a minority stake - had also bought a 35 per cent stake in Core.

Canadian cinema group optimistic

CINEPLEX ODEON, the Canadian cinema and film distribution group controlled by the Montreal Bronfman family, expects to return to profit in the third quarter of this year, writes Robert Gibbens in Montreal.

The group made a first-quarter loss of US$10.8m on revenues of $116m, against a loss of $13.9m on revenues of $129m a year earlier.

Debt had been reduced from $700m to $385m, cash-flow was positive and operating expense was under control, Mr Allen Karp, president, told the AGM. In 1992 Cineplex lost $41.3m on revenues of $518m.

Although Cineplex has been heavily restructured, and theatres in several marginal US markets have been sold, it is still one of North America's largest cinema operators.

The group has 1,614 screens in 363 locations.

NEWS DIGEST

■ UNIT TRUST of India, India's largest mutual fund group, is to launch its India Liberalisation Fund in the US, writes R. C. Murthy in Bombay.

This will be the third country fund, slated for launch in August-September, after a gap of more than four years.

The first, the sterling-denominated India Fund, was floated from Guernsey for £75m ($115.5m). This is to be converted into an open-ended fund from July 1.

India Growth Fund is dollar denominated and listed on the NYSE.

■ THE International Swap Dealers' Association, the trade group representing the derivatives industry, plans to change its name to International Swap and Derivatives Association, writes Laurie Morse in Chicago.

"When ISDA was founded in 1985, the terms 'swaps' and 'over-the-counter derivatives' were virtually interchangeable," said Mr Joseph Bauman, ISDA chairman and head of global derivatives for Citibank.

"At that time our name accurately conveyed our focus," Mr Bauman explained. "In addition to interest rate and currency swaps, ISDA covers a variety of options-based products, 'swaptions', FX and currency options, OTC equity and commodity-linked transactions, and other instruments."

■ SYNTHELABO, part of the French L'Oréal group, has acquired Alcon's Couvreur Pharma, a Belgian company specialising in over-the-counter medicines, Reuter reports from Paris.

Dollar sector provides focus of attention

By Sara Webb

BORROWERS scurried to the dollar sector of the Eurobond market yesterday, launching a total of more than $1.2bn in new bonds.

Some issuers were wooed into the market by the release of favourable US inflation figures and dealers said the positive outlook was likely to encourage the launch of more Eurodollar deals in the immediate future, even though arbitrage opportunities were not seen as especially attractive.

INTERNATIONAL BONDS

Canada's Province of Ontario yesterday announced plans to issue a minimum US$1bn global bond issue in the near future. LKB Baden-Württemberg, a state agency, is also due to raise $500m with an unusual Eurobond issue to be listed in both Luxembourg and Singapore.

Nomura, the lead manager for the triple-A rated deal, describes the issue as a "hybrid dragon-Eurobond" given that it is targeted at Asian and European investors and will have an Asian co-management group. The bonds were being priced at the end of the Hong Kong business day.

British Gas International Finance returned to the dollar market with a $250m, 10-year deal.

The borrower has launched deals in the Eurosterling sector recently and has seen yield spreads narrow substantially. The bonds were priced to yield 34 basis points over the US Treasury, and traded at 32-33 basis points over later in the day. The bonds were swapped into fixed rate sterling.

Outside the dollar sector, the main talking point of the market was a successful FFr1.5bn deal from Nestlé Enterprises, the holding company for the French operations of Nestlé.

BNP, the lead manager, claimed the yield spread at launch of 7 basis points over the French treasury bond is the "tightest spread done in the French franc sector" in recent memory.

At one stage the spread narrowed to 3-4 basis points, reflecting the very strong institutional investor demand for the issue.

Dealers pointed to the rarity value as the main reason for the tight pricing and good investor demand.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
LKB Baden Württemberg Fin.	500	(a)	(a)R	Jul.2003	0.325R	+25 (6¼%-03)	Nomura International
US West Communications	300	5.625	99.908R	Jul.1996	0.3R	+35 (5⅞%-96)	Morgan Stanley Intl.
British Gas Intl. Finance	250	6.25	99.06R	Jul.2003	0.35R	+34 (6¼%-03)	BZW/ Goldman Sachs Intl.
Banco Cremi	150	8.375#	99.6626R	Jun.1995	1R	-	Santander Investment Bank
Toho Real Estate(b)ϕ	50	1	100	Jul.1997	2.25	-	Daiwa Europe
Banco Bandeirantes	40	10.25#	99.9R	Dec.1995	1.15R	+601 (c)	Paribas Capital Markets
YEN							
Inter-American Dev. Bank	40bn	4.375	99.85R	Jun.1998	0.25R	+23(4.6%-98)	IBJ International
D-MARKS							
European Investment Bank	500	6.375	101.57	Jul.1998	1.625	-	DGZ
FRENCH FRANCS							
Nestlé Entreprises	1.5bn	6.5	99.634R	Jul.1998	0.25R	+7 (5¼%-98)	BNP
GUILDERS							
SNS Group	250	7	100.9R	Jul.2003	0.3R	+29 (c)	Bk. van Haften Labouchere

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ϕWith equity warrants. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Priced today. b) Fixing: 21/6/93.c) Yield is over the interpolated yield curve.

Treasuries improve in wake of inflation data

By Patrick Harverson in New York and Peter John in London

US TREASURY prices firmed across the maturity range yesterday morning in the wake of another set of positive inflation data.

By midday, the benchmark 30-year government bond was up $\frac{3}{32}$ at 104$\frac{5}{32}$, yielding 6.794 per cent. At the short end, the two-year note was also firmer, up $\frac{1}{16}$ at 100⅛, to yield 4.040 per cent.

The long-awaited May consumer prices figures proved bullish for bond market sentiment. The Labor department announced that the consumer price index last month rose 0.1 per cent, and the core rate (excluding the volatile food and energy components) rose 0.2 per cent.

GOVERNMENT BONDS

The data was slightly better than analysts had forecast, and following last week's smaller-than-expected rise in producer prices, will help ease investors' fears about resurgent inflation. In particular, the May numbers make it unlikely that the Federal Reserve will raise interest rates to curb inflationary pressures in the economy, reducing much of the uncertainty that has dogged bonds for the past month.

Against this positive background, prices rose strongly in early trading. The initial gains, however, prompted some retail selling at the long end by mid-morning as investors moved to take profits.

The short end of the market held on to most of its gains as big hedge funds loaded up on shorter-dated securities in the anticipation that short-term US interest rates will not be going up soon.

■ GERMAN government bonds fell yesterday as hopes of lower interest rates receded before today's repo announcement.

The September bund futures fell 0.30 to 94.86 during official trading, principally because of profit-taking following Monday's rally. In after hours trading, the contract recovered to 94.96.

Sellers latched on to the Bundesbank's statement that today's repo rate would be variable. They inferred that the German central bank was not interested in steering the rate lower and that it would be held at 7.6 per cent again.

■ PROFIT-TAKING left its mark on French government bonds in early trading. But the rate cut apologists moved in later and countered the selling pressure to leave long-dated bonds marginally firmer.

The Bund-OAT spread narrowed to 18 basis points as investors moved along the French yield curve. The trend towards buying at the long end has prompted some concern that the imminent auction of FFr15bn-FFr17bn of five-year bonds will see poor interest, especially as there is already supply pressure from the impending issue of the so-called Balladur bonds.

On the Matif, the June futures contract was four basis points higher at 118.70 by the official close and continued firmer in after-hours trading.

■ UK government bonds slipped before the chancellor's Mansion House speech on the economy. September gilt futures lost most of the previous day's gains falling $\frac{5}{32}$ to 104⅛.

The chancellor's commitment to low inflation will be encouraging to the bond market but there is unlikely to be a great deal to latch on to in what is now seen as a general appraisal of the UK's economic position.

Dealers will look to the release tomorrow of the latest unemployment data and expect a rise of around 10,000 against three months of falls.

FT FIXED INTEREST INDICES

	June 15	June 14	June 11	June 10	June 9	Year ago	High *	Low *
Govt Secs (UK)	95.54	95.57	95.37	95.36	95.32	88.74	98.04	93.28
Fixed Interest	111.90	111.87	111.85	111.81	110.99	104.37	113.83	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (9/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	June 14	June 11	June 10	June 9	June 8
Gilt Edged Bargains	84.7	78.7	84.0	94.2	81.3
5-Day average	84.7	83.3	84.7	88.1	86.8

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		8.500	08/03	113.4757	+0.881	7.57	7.78	7.53
BELGIUM		9.000	03/03	112.0800	+0.020	7.25	7.35	7.42
CANADA *		7.250	06/03	98.5500	+0.050	7.48	7.65	7.72
DENMARK		8.000	05/03	105.3000	-0.150	7.15	7.41	7.61
FRANCE	BTAN	8.500	05/98	108.4807	-0.004	6.41	6.57	6.64
	OAT	8.500	04/03	110.8000	-0.010	6.94	7.11	7.12
GERMANY		6.75	04/03	99.8850	-0.080	6.76	6.87	6.78
ITALY		11.500	03/03	99.6800	+0.290	11.69†	12.18	12.44
JAPAN	No 119	4.800	06/99	102.5124	+0.196	4.28	4.41	4.45
	No 145	5.500	03/02	106.6878	-0.136	4.44	4.49	4.56
NETHERLANDS		7.000	02/03	102.8900	-	6.56	6.71	6.62
SPAIN		10.900	08/02	97.7290	-0.029	10.70	10.77	11.12
UK GILTS		7.250	03/98	105-22	-4/32	7.07	7.08	7.18
		8.000	06/03	100-16	-4/32	7.92	8.02	8.11
		9.000	10/08	105-22	-9/32	8.33	8.46	8.51
US TREASURY *		6.250	02/03	102-13	+6/32	5.92	6.08	6.02
		7.125	02/23	104-05	+3/32	6.80	6.88	6.94
ECU (French Govt)		8.000	04/03	104.6000	-0.100	7.32	7.46	7.47

London closing *New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Italy outlines a flexible approach to borrowing

Haig Simonian says one option is a global dollar bond offering as its plans get back on track

THE Republic of Italy could be poised to issue one of the world's biggest global dollar bonds as borrowing gets back on track after political upsets and debt downgradings earlier this year.

However, Mr Mario Draghi, director general of the treasury, stressed that the bond was just one of a range of options currently being considered.

Italy's flexible approach has been reflected in the treasury's two latest deals. Last month, it launched an innovative swap offer, giving investors in seven old Eurodollar bond issues the chance to exchange their paper for one of two new bonds, depending on maturity.

The deal, which raised around $800m in fresh money thanks to new issues accompanying the swaps, was followed this month by a $2bn issue of floating rate notes.

The two transactions showed that Italy's foreign borrowing plans, heralded by a DM5bn bond in late January, were back on track. When the D-Mark issue was launched, Mr Draghi said Italy hoped to raise between $10bn and $15bn on the Euromarkets this year, depending on market conditions.

However, Italy's creditworthiness started to take a battering within days of the D-Mark deal as the widening political corruption scandal triggered a string of ministerial resignations and called the former Amato government's authority into question.

Political turmoil in turn raised uncertainties about Italy's ability to deal with its huge budget deficit, the core of its structural economic problems.

One reason for the republic's return to the Eurobond market after a two-year absence was to switch borrowing away from relatively expensive domestic lira deals. Since the Amato government had some success in cutting spending and raising taxes, servicing costs on the deficit now account for the bulk of the government's funding requirements.

The political turmoil led to a volatile period in the domestic bond markets, which were additionally buffeted by the decision by Moody's, the US rating agency, to downgrade Italy's credit rating to A1 from Aa3.

However, there has been a marked return of confidence in recent weeks, which treasury officials say is not reflected in the ratings. The appointment of Mr Carlo Azeglio Ciampi, the former central bank governor, as prime minister convinced dealers further action would be taken to tackle the deficit. Meanwhile, recent referendum results suggest far-reaching political changes are now under way.

The decision to launch the bond swap was an attempt to "sound out the market and tighten spreads," says Mr Alberto Giovannini, the Columbia University professor now working as a full-time adviser to the treasury. Although only about 10 per cent of the eligible bonds were exchanged for the new paper, Mr Giovannini said the treasury was pleased with the results.

"A lot of the professionally-held paper was locked up in asset swaps. And much of the retail sales had gone to Italian investors, who previously bought bonds free of withholding tax on the coupons," he said.

But Mr Giovannini stressed the treasury's objective was not to tease out the maximum amount of paper.

With fixed and floating rate dollar issues and a large D-Mark transaction under its belt, the treasury is now about half-way to meeting its $10bn-$15bn borrowing goal for 1993.

Mr Draghi stresses the range is flexible. "We don't want to force anything down the market's throat," he says.

"We're not pushing for tight spreads at any cost. We're looking for the equilibrium spreads in line with what the market will take." With the risk of political upsets still present and the rating agencies so far sticking to their guns, the Italians cannot afford to take a more aggressive position at present.

UK building society in PIBS issue

By Tracy Corrigan

NEWCASTLE Building Society, the UK's 25th largest building society, has placed its second issue of permanent interest bearing shares (PIBS), via Charterhouse Tilney, at the lowest yield spread over gilts yet achieved by any building society.

The £10m placement will be treated as core capital for building society capital adequacy purposes.

The shares will pay fixed interest of 10⅞ per cent, yielding 240 basis points over the 9 per cent gilt due 2008. This represents a substantial reduction from the spread on Newcastle's first deal, launched last September at a yield margin of 380 basis points.

Spreads on PIBS issues have tightened substantially, partly due to unexpectedly strong demand from retail investors keen to buy relatively high-yielding assets in the current low interest rate environment.

The tightening of spreads is also attributed to a shortage of stock in some issues, such as the first Newcastle deal, which is now trading at a spread of 203 basis points. A PIBS issue launched by the Halifax, the UK's largest building society, in January 1992 at a spread of 275 basis points, is now trading at a spread of 170 basis points.

Given that the principal amount invested in PIBS is never repaid, some dealers think that spreads are now looking very tight.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on June 15

U.S. DOLLAR STRAIGHTS / OTHER STRAIGHTS / DEUTSCHE MARK STRAIGHTS / FLOATING RATE NOTES / SWISS FRANC STRAIGHTS / CONVERTIBLE BONDS / YEN STRAIGHTS

[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡ three-month) above mean rate for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	3	41	33
Other Fixed Interest	3	2	10
Commercial, Industrial	216	313	871
Financial & Property	85	158	552
Oil & Gas	14	29	40
Plantations	0	0	8
Mines	36	47	55
Others	43	43	39
Totals	403	633	1,609

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amt Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price	+or-	Net Div	Times Cov'd	Gross Yield	P/E Ratio
125	F.P.	-	132	125	AG Holdings	128		R6.25	1.9	6.1	11.6
[illegible]	F.P.	-	59	56	Break for The Border	58		[illegible]	-	-	7.6
25	F.P.	-	33	29	Bardon's Aggregates	33		-	-	-	-
100	F.P.	-	108	93	China Inv. Tst.	94		-	-	-	-
[illegible]											

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
245	Nil	23/6	[illegible]	57pm	British Land	59pm	-8
155	Nil	23/7	50pm	36½pm	Brixton Estate	40pm	-5
5	Nil	9/7	2½pm	¼pm	Harmony Leisure	1¼pm	+½
25	Nil	25/6	12pm	9pm	Osprey Comms.	10½pm	-½
162	Nil	28/7	29pm	25pm	Sanderson Murray & E	28pm	
135	Nil	13/7	34pm	26pm	Stanfield Ins.	26pm	-1
18	Nil	21/7	14pm	11pm	Sleepy Kids	11pm	-1
600	Nil	13/7	36pm	13pm	Zeneca	16pm	-1

§ Figures based on prospectus estimates. ¶ Figures based on IIMR 'Headline Earnings' draft proposals. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. ‡ Unlisted securities market. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings June 14
- Last Dealings June 25
- Last Declarations Sep. 16
- For settlement Sep. 27

3-month call rate indications are shown in Saturday editions.
Calls in Aegis, Clayform Props., Colorgen, Millwall, Regalian Props. and Sent. Put in Gonsco. Doubles in Proteus Intl. and Regalian Props.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied-Lyons (*538)	500	49½	63½	71½	4	11½	18
[illegible]							

Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Brit Aero	360	50½	60½	78½	13	28	32½
[illegible]							

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Eurotunnel	420	6½	35½	56½	5	38	46½
[illegible]							

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES / AVERAGE GROSS REDEMPTION YIELDS

		Tue Jun 15	Day's change %	Mon Jun 14	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	127.35	+0.01	127.67	1.81	5.36
2	5-15 years (21)	146.68	-0.04	147.05	1.86	6.28
3	Over 15 years (9)	159.49	-0.06	159.59	2.57	6.08
4	Irredeemables (6)	176.19	-0.01	176.15	1.36	4.38
5	All stocks (62)	143.32	-0.01	143.64	1.95	5.79
	Index-Linked					
6	Up to 5 years (2)	184.77	-0.05	184.87	0.89	2.82
7	Over 5 years (11)	173.89	-0.04	174.05	0.68	2.12
8	All stocks (13)	174.22	-0.04	174.36	0.68	2.22
9	Debs & Loans (69)	129.27	+0.04	129.22	2.45	4.93

Average gross redemption yields: [illegible]

COMPANY NEWS: UK AND IRELAND

Bradford Property falls to £21m

By Vanessa Houlder, Property Correspondent

BRADFORD Property Trust, the UK's largest tenanted residential property company, yesterday announced a fall in pre-tax profits from £23.1m to £21.1m for the 12 months to April 5.

The total dividend is increased by 21 per cent from 4.45p to 5.4p with a recommended final of 3p.

The dividend is increased to a level that matches the surplus from property rentals after payment of tax and preference dividend.

The company's business centres on buying tenanted properties at a discount to reflect the statutory rights of sitting tenants under the Rent Acts and selling them with vacant possession.

Since the 1988 Housing Act, the company has been able to let property that becomes vacant free of rent controls. About 90 per cent of its portfolio is currently subject to rent controls.

Dealing profits were down, from £12.2m to £9.45m, reflecting the state of the housing market over the last year. However, the surplus from property rentals increased from £9.79m to £11.8m.

This partly reflected acquisitions of new property, including a portfolio from Asda Property. It also resulted from larger rent increases.

The interest charge was £1.76m, against a credit last time of £15,000. That reflected the acquisition of property worth about £60m during the past two years.

Earnings per share fell from 10.76p to 9.87p. Net asset value per share fell from 175p to 170p.

● COMMENT

The City was prepared to overlook Bradford's fall in profits yesterday in favour of its exceptionally strong dividend prospects. This year's 21 per cent dividend increase may be followed by increases of between 15 per cent and 20 per cent for the next couple of years, as rental surpluses swell. In addition to rent rises in its existing portfolio, the company may benefit from more acquisitions. With gearing of 15 per cent, the company could, in principle, sink another £100m into new acquisitions. But like the property sector as whole, the shares are probably due for a period of consolidation. The shares, which yesterday dipped from 197p to 192p, are trading on a 7 per cent premium to assets, assuming a rise in net asset value to 180p next year. But taking a long term view, the shares should prove a rewarding play on an improvement in the residential property market.

Johnson Fry launches utility trust

By Philip Coggan, Personal Finance Editor

JOHNSON FRY, the financial services company best known for its business expansion schemes, is launching its first investment trust. The Johnson Fry Utilities Trust will buy shares in privatised water, electricity, telecommunications and gas companies.

The trust will have a split capital structure with ordinary income and zero dividend preference shares. The zeros will have first claim on the assets of the trust and will grow at a rate equivalent to a gross redemption yield of 9 per cent per year over the trust's 10 year life.

The income shares will receive all the dividends and the remaining assets after the zeros have been repaid. The initial gross yield on the income shares is expected to be 9 per cent. Assets will have to grow at 3.7 per cent per year for the income shares to be repaid at their issue price of 100p.

Some 75 per cent of the portfolio will be in utilities. The remaining 25 per cent will be invested in irredeemable preference shares, to help boost the overall yield. Further income will be earned by writing call options against part of the trust's utility holdings.

The trust aims to raise £40m, including £10m worth of zero dividend preference shares. The issue expenses have been capped at 4.2 per cent and the the manager's annual fee will be 0.5 per cent of assets.

Applications must be for a minimum of £3,000. Those who opt for the income shares can place them in a personal equity plan for an additional charge of £30 per year.

There is also the facility for a share exchange for those who own shares from previous privatisations. The trust will buy shares at the bid price at no dealing charge. Any exchanges, however, must be made on top of an additional cash investment of £3,000.

The issue is sponsored by Smith New Court and will close on July 6 (for income shares) and July 8 (for zeros).

● COMMENT

A portfolio of utility shares is such a natural choice for private investors that it is surprising no-one has launched an investment trust in this area before. The question is whether utilities have had such a good run that the trust is being launched at the top of the cycle. Certainly, with 25 per cent of the portfolio in preference shares, prospects for capital growth may be limited, given that income holders already need 3.7 per cent annual growth in assets just to get their money back. That said, the recent falls in interest rates have created demand for high-yielding equity investments and this ought to be safer than most. The zeros, which yield 9 per cent and are well covered, may be especially appealing to higher rate taxpayers.

David Lloyd Leisure beats forecasts

By Richard Gourlay

DAVID LLOYD Leisure, the tennis court and health club group that floated earlier this year, exceeded its forecasts by returning interim profits ahead 84 per cent.

Pre-tax profits jumped from £1.06m to £1.94m on sales up 33 per cent at £8.75m. The large increase resulted from the inclusion of five new tennis and fitness centres that were not on stream in the first half of last year.

Mr David Lloyd, who launched the group after running similar centres in North America, said the group was ahead of schedule for the opening of its latest club in Glasgow.

Profits from existing clubs grew by about 7 per cent, held back by less than usual growth in profits from bowling. Mr David Gray, finance director, said the main growth would continue to come from the introduction of new centres which brought with them an immediate increase in memberships. The group plans to introduce two new clubs a year.

Earnings per share rose from 2.8p to 4.1p. As forecast there will be no interim dividend; first payment will be at the end of the first full year.

Mr Lloyd said that profits were normally heavily skewed towards the second half of the year but, because of the introduction of the new centres, that would not be so marked this year.

Nevertheless, the group was on target to hit the £5.5m pre-tax profit forecast made at the time of the flotation.

Organic progress behind Volex advance to £7.3m

By Peter Pearse

VOLEX GROUP, the electrical interconnection products company whose chief executive was headhunted by Farnell Electronics in May, doubled profits in the year to March 31.

The shares rose 18p to 405p.

The rise from £3.68m to £7.34m was struck on turnover up from £81.6m to £106.1m. Mr Ken Hooper, finance director, said it was difficult to say how much of the advance was organic growth and how much derived from acquisitions because of the way the new companies had been woven into the group. However, Mr Bill Goodall, chairman, said that the result contained a "good amount" of organic progress.

During the year, Volex spent £8.5m on acquisitions. It added Icontec in July 1992 and Component Manufacturing Systems in January 1993 to its Cable Products operation in the US.

In October 1992 it also bought a 60 per cent stake in Mayor, the Singapore-based maker of data and power cord assemblies.

Guided by Mr Howard Poulson, the outgoing chief executive described by Mr Goodall as "a good strategic thinker", Volex has become a worldwide supplier of cable assemblies to the computer, medical and instrumentation markets.

Mr Goodall said this global strategy was a lesson learned from the wiring systems side, which supplies the automotive industry. Here Volex has withdrawn from supplying volume car manufacturers – which opted for global suppliers – and has instead targeted markets such as off-road and agricultural vehicles, sports and specialist cars, Rolls-Royce and Aston Martin. The division is being restructured and the St Helens factory was closed. There was also a £654,000 bad debt provision from Leyland DAF taken as an exceptional charge.

Some 40 per cent of the growth at Pencon, the UK maker of power cords, was organic, the company said, and £3m of the group's £7.8m capital expenditure allowed capacity to be increased. Legislation for the pre-fitting of plugs to electrical appliances is expected this year.

January's £17.5m rights issue helped increase shareholders' funds to £38.7m (£29.5m) and at the year-end, Volex had net positive funds of £5.9m. The final dividend is lifted to 11.35p for a 17.85p (17p) total, payable from earnings of 22.5p (14.9p) per share.

Aer Lingus may cut 1,000 jobs

By Tim Coone in Dublin

FURTHER management changes have been announced at Aer Lingus, Ireland's loss-making state airline, in the lead-up to a substantial rationalisation plan which was discussed at cabinet level yesterday.

This is expected to be unveiled by the government before the end of the month. No official details have been released but the plan is thought to include voluntary redundancies of up to 1,000 out of 13,000 employees worldwide and reorganisation and possible closure of some loss-making routes.

Mr Peter Owen, appointed chief executive three months ago, said the new management structure is "designed to give the necessary leadership and impetus to the major programme of change that lies ahead."

Other changes are thought to include revision of the fare structure, the sale of certain non-core assets such as its UK hotel chain, and a link-up with an overseas airline. Included also is a probable abandonment of the controversial "Shannon stopover" which obliges all transatlantic flights in and out of Ireland to stop at Shannon, in the west of Ireland.

Few of the company's 43 routes are thought to be profitable at present. Losses are expected to reach I£90m (£88m) this year, adding to a debt estimated at close to I£600m.

The government has promised an equity injection, thought to be in the region of I£120m, as long as the company's management comes up with a viable recovery plan. A previous plan, presented by Mr Cathal Mullan, Mr Owen's predecessor, was rejected by the government.

The Aer Lingus unions are warning that they will oppose any sell-off of company assets. Mr Peter O'Sullivan, the civil aviation representative for Siptu, the airline's principal union, said "we are heading for industrial action."

Reduction in fee income leaves AJ Archer £0.3m in the red

By Richard Lapper

A FALL IN fee income from its syndicates pushed AJ Archer, the Lloyd's agency, into the red at the interim stage.

Pre-tax losses for the six months to March 31 of £292,000 compared with profits of £267,000 last time.

Capacity of the group's syndicates fell from £368m in 1992 to £201m. Profit commission on the syndicates in the 1990 year fell to £300,000 compared with £700,000 in 1989.

Losses per share were 1p, against earnings of 0.7p. The interim dividend is cut to 0.5p (2.2p).

The group also announced the completion of its agreement, originally announced in March, to buy Castle Holdings, a rival Lloyd's agency. Consideration is 11.2m new shares – valued at £5.2m – and options over a further 1.27m shares.

In addition, the vendors will be entitled to receive 50 per cent of the aggregate profit commissions attributable to Castle's syndicates for underwriting years from 1990 to 1998.

Workforce falls by 1,000 with another 800 to go

FKI rises to £38m as refocusing progresses

By Andrew Bolger

FKI, the electrical engineering group which has seen its shares nearly triple in value in the last 18 months, confirmed that it was making progress in focusing the business.

Pre-tax profits increased from £20.7m to £38.1m in the year to March 31, although the increase was flattered by the adoption of FRS 3, which moved £9m of extraordinary charges above the line last time.

Turnover rose from £739.1m to £756.1m and earnings per share increased to 6.2p (2.65p). Before FRS 3, the previous year's figure was 4.88p, so underlying earnings growth was 27 per cent. A final dividend of 1.8p gives a total of 3p (2.3p), up 30 per cent.

The profits figure was struck despite £5.4m of reorganisation costs. The workforce was reduced by 1,000 to 11,800 and is likely to fall to about 11,000 in the current year, during which which a similar level of reorganisation costs will be incurred.

Mr Jeff Whalley, chairman, said: "These are excellent results achieved against a background of continuing tough market conditions in our main markets in the UK and North America and reflect solid progress in improving profitability and restructuring the businesses. I look forward to the future with confidence."

Trevor Humphries

Bob Beeston, left, and Jeff Whalley: improving profitability against background of continuing tough market conditions

FKI has sold half of the £40m of assets it last year identified as non-core. Considerable progress has been made in improving profitability across the group, with operating margins on continuing activities up from 4.5 to 5.9 per cent.

Four of FKI's five trading groups – material handling, hardware, automotive and engineering – improved results, with automotive returning to the black. The exception was process control, which saw operating profits fall from £8.8m to £5.2m. More than a third of the total reorganisation expenditure was directed at process control, which the group said would achieve much improved results in the current year.

COMMENT

So far, so good. Mr Bob Beeston, who was brought in from BTR at the beginning of last year as managing director, has been rewarded with the post of chief executive for his success in slashing costs and pricing more aggressively. Unfortunately, the three groups with most potential – hardware, materials handling and automotive – are all mainly in the US, so FKI may be tempted to go for a significant business in the UK. Analysts would welcome bolt-on acquisitions to exploit excess automotive capacity. However, they would be less keen on a large paper-funded acquisition. Forecast earnings of about £50m put the shares, down 3½p to 138p, on a prospective multiple of 17. FKI's confidence in the scope for enhancing margins to more than 10 per cent bodes well for the long term. But after such a good run, the shares may mark time until acquisition intentions become clearer.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Archer (AJ)	int	0.5	Aug 19	2.2	-	4.4
Bradford Prop	fin	3	Aug 6	2.45	5.4	4.45
Cardiff Property	int	0.85	Sep 6	0.85	-	2.4
Channel Hldgs	fin	1	-	-	1	-
Clyde Blowers	int	4	Aug 3	0.83	-	7.8
FKI	fin	1.8	Oct 4	1.3	3	2.3
F&C Smaller Cos	fin	1.16	July 20	1.1	1.84	1.75
IWP Intl	fin	4.25§	Sept 8	3.75	7.25	6.8
Ldn Clydeside §	int	1.8	July 27	1.8	-	4.5
Manweb	fin	14.9	Sept 10	12.8	21	18.25
Melville St Invs	fin	2.5	Aug 20	2.5	4	4
Sheriff	int	1.25	Aug 20	1	-	1.75
Volex	fin	11.35†	Oct 1	10.5	17.85	17
Wellman	fin	0.6	Aug 20	1.4	0.9	2.2
Wessex Water	fin	14.2	Oct 1	12.9	21.5†	19.5

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Irish pence.

Share shops role in BT sale promoted

By Roland Rudd

THE GOVERNMENT is encouraging share shops to target BT shareholders and employees in a move to deflect criticism of its handling of the BT sale.

Some of the 150 share shops have complained that the government has marketed its own share information office number at their expense in the run-up to the sale of the government's remaining 21.9 per cent BT shareholding.

Of the 1.8m potential investors only 700,000 have chosen to register through a share shop.

Mr James Sassoon, director of SG Warburg, the government's global co-ordinator, said: "Share shops may want to focus on converting the 2.4m pre-registered shareholders from the share information office into share shops so that they do not miss out on top level preferences in allocation."

The government's advisers are suggesting that share shops could target their advertising towards BT shareholders and employees.

Two of the share shops yesterday questioned how they could get a list of the BT shareholders without the help of the company or the government.

However, Mr David Jones, chief executive of ShareLink, whose shareholders include Foreign & Colonial Ventures and Eagle Star, said: "No one should expect the government to facilitate contact between BT employees, shareholders and share shops."

Big shareholders yesterday said they did not expect to pay more than 10p a share above the price for retail investors on the first instalment.

The government will announce the price of the first instalment for the international offer on June 29. The first payment for the retail investor has been set at 150p. The second instalment, set at 140p, and the third, to be determined by the demand from big shareholders, will be the same for all investors.

Spurs score series of own goals

Richard Gourlay and Paul Taylor on the Tottenham boardroom clash

IT IS a rare chairman of a public company who openly admits to knowing nothing about the service he provides his customers.

Mr Alan Sugar, chairman of Tottenham Hotspur Football Club, cheerfully admits he knows nothing about football. Furthermore, having on Monday successfully won a High Court judge's backing to sack Mr Terry Venables, the chief executive, he says he will continue to keep his "nose out of football."

Mr Venables, a notable footballer and on-the-field tactician, knew nothing about running a business, according to Mr Sugar.

The two should have made a great team. But as Mr Sugar's decision to sack Mr Venables clearly demonstrates, the club's two largest shareholders have strung together little more than a series of own goals over the past month.

Yesterday Mr Venables, who continues to hold a 22 per cent equity stake in the north London soccer club, remained publicly defiant, but nevertheless appeared to be somewhat on the defensive.

At a press conference held in Scribes West, his private members club in the basement of Barkers store in Kensington High Street, he defended his record at Spurs and attacked Mr Sugar for his "unfounded accusations" and "innuendo."

He professed to be determined to go ahead with a court bid to force Mr Sugar to sell him his 48 per cent stakeholding despite Monday's High Court setback.

"The real issue is to get Alan Sugar to sell his shares in the Plc," he said but declined to identify his financial backers. "I cannot say who my backers are," he said,"these people do not want to be dragged into court."

By contrast, Mr Sugar, speaking from the White Hart Lane headquarters he now dominates, appeared relaxed and dismissive of Mr Venables' rearguard action. "That game is over," he said.

Mr Sugar faces, however, a significant challenge. It is unlikely he has ever had to deal with a more volatile clutch of assets – some of whom have requested a transfer to other clubs. Nor will he have seen a more fiery customer base – although he says sales evaporated at Amstrad in the late 1980s when IBM overnight cut its prices on personal computers.

Mr Sugar was most dismissive of the threat of a player boycott. He said no players were currently up for sale. Requests for transfers from Neil Ruddock and Nick Barmby had been rejected. Ray Clemence and Doug Livermore, the assistant coaches, would continue with day to day running of the team.

Buying and selling of players would resume, however, as a normal part of the close season club activity.

Mr Sugar saved his sweetest message, however, for the fans who appear to resent his early statements that a football club was a business which had to make money.

"It has to be profitable and it is a business and I do have a lot of confidence in sport and leisure," Mr Sugar said almost apologetically. But "it has become close to my heart and I enjoy it tremendously. But that will not make me go raving mad with my cheque book."

By declining to get involved in the footballing side, Mr Sugar has effectively spiked one of Mr Venables guns.

Asked if he thought Mr Sugar was the best person to run Spurs Mr Venables said he did not think so and added, "he is going to have to rely on other people."

And on the boycott? Mr Venables was careful to protect his stake in the club. Asked whether he was in favour of fans boycotting season ticket sales and about the rumours of mass defection by players, he said he wanted the club to "go forwards" and "do well" in order to protect his investment.

Just how badly his and Mr Sugar's investments have been damaged by the month long legal skirmish will probably only emerge once the season restarts.

However, Mr Sugar already has an answer if attendance is low. "If we are drawn against Oldham in our first home game I will use that as an excuse for why attendance is low."

Alpine directors tell of Clive Smith and his family's part-ownership

By Peggy Hollinger and Catherine Milton

ALPINE (Double Glazing), the UK windows company which ceased trading in May, is part-owned by the family of Mr Clive Smith, the Midlands entrepreneur, Alpine directors told a packed meeting of angry creditors yesterday

Alpine is owned by Finchfleet, a Guernsey-based but British Virgin Islands-registered company. Finchfleet in turn is jointly owned by Finchley Investments, the offshore vehicle for Mr Smith's family interests, and Le-an Holdings, another offshore trust company. Finchfleet has waived all claims on Alpine in the last few days, an Alpine director said.

Mr Smith has been involved in the flotation of several natural resource companies, two of which are the subject of a Serious Fraud Office investigation. He recently narrowly avoided personal bankruptcy when creditors, owed more than £20m, approved his proposals for an individual voluntary arrangement.

The largest single creditor, Richard Pearce & Sons, shares the same Irish address as Mr Kelvin Myles, who has administered some of Mr Smith's offshore interests. Mr Smith personally guaranteed the original purchase of Alpine out of administration in 1992.

Mr Robert Pollock, a director of Alpine, told the creditors meeting, which was attended by burly security guards, that he had received death threats.

He said Ibex, the company which bought Alpine in 1992, had been the "undisclosed agent" of Finchfleet.

Mr Pollock said: "Finchfleet is owned by Finchley Investments and by Le-an which is owned by discretionary trusts." He initially refused to give further details but under intense questioning later admitted that Finchley is owned by Mr Smith's family interests. When questioned about whether Le-an was connected with his own family interests, Mr Pollock refused to comment.

Ibex – which later changed its name to Alpine – bought the assets of the old Alpine for £1.1m on behalf of Finchfleet. Finchfleet then sold those same assets to Ibex for about £3m, the meeting heard.

Mr Pollock said he received faxed instructions from Finchfleet from time to time, although he and, later another director, Mr Robin Spiers, were responsible for the day-to-day running of Alpine.

The formal statement of Alpine's affairs shows that it has assets of £1.2m and debts to creditors of about £4m, according to directors. However, the company was able to pay its insolvency practitioner, Mr Graham Wilson, who also acted for Mr Smith in his individual voluntary arrangement last month.

The meeting also heard that in the last 15 months the company has not paid any money to the Inland Revenue.

A creditors' committee was formed representing former employees, and the Inland Revenue. Mr Paul Snook, of Touche Ross, is also on the committee representing John Freckleton and Son.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	19.00	18.70	18.70
0100	18.09	18.66	18.66
0130	18.09	23.86	27.14
0200	18.09	26.92	30.34
0230	18.09	26.92	30.35
0300	18.09	26.92	30.27
0330	18.09	23.86	27.05
0400	18.09	18.68	18.68
0430	18.09	18.69	18.69
0500	18.09	18.69	18.69
0530	18.07	19.00	19.00
0600	18.07	18.69	18.69
0630	18.09	23.39	26.82
0700	25.70	24.36	27.56
0730	25.70	25.60	28.66
0800	26.01	26.40	29.72
0830	27.91	27.62	30.79
0900	34.20	27.89	31.22
0930	34.52	31.72	35.20
1000	34.57	31.69	35.16
1030	29.73	28.61	32.97
1100	30.67	29.56	32.91
1130	28.94	27.86	31.18
1200	34.52	31.70	36.17
1230	34.75	31.64	35.06
1300	29.60	29.47	32.76
1330	26.29	27.36	30.50
1400	26.08	25.58	28.60
1430	26.01	25.54	28.57
1500	26.01	25.53	28.57
1530	26.04	26.38	29.44
1600	26.17	26.41	29.46
1630	33.62	32.12	35.33
1700	33.74	34.15	37.41
1730	33.80	34.11	37.36
1800	33.25	26.37	29.47
1830	25.81	25.40	28.89
1900	25.78	25.40	28.60
1930	25.78	25.21	28.32
2000	24.58	25.21	28.33
2030	23.78	25.21	28.32
2100	23.78	25.21	28.32
2130	23.77	25.21	28.29
2200	40.00	35.00	38.30
2230	42.00	35.00	38.40
2300	42.00	25.13	28.23
2330	24.60	24.36	27.46
2400	22.08	23.45	26.56

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible] The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. [illegible] Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. [illegible] Monday to Friday.
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Mandatory £87m bid for Watts Blake

By Andrew Taylor, Construction Correspondent

WATTS BLAKE Bearne, a 280-year business based in Devon and the world's biggest supplier of ball clay, is in danger of losing its independence following the launch yesterday of a £87m bid.

Sibelco, a privately owned producer of silica sand for the glass industry based in Belgium, is bidding 420p cash per share for the British group.

The offer failed to win unqualified approval from the City. "This is a quality company with a unique product and unique assets. The price does not reflect the true long-term potential of the group," said Mr Ian Hilliker, an analyst with NatWest Securities.

Watts Blake shares, however, failed to rise above the offer price, and later fell back to 415p, a net gain of 24p.

There is a loan note alternative on the basis of £21 for every five shares. The notes carry interest at 4.75 per cent and are redeemable at par in September 1994.

The bid was sparked by a decision earlier this year by Ceramics Holdings, controlled by the Lebanese Gargour family, to dispose of its 15.6 per cent stake.

This triggered a concert party agreement under which Sibelco and Quarzwerke of Germany, each owning 14.8 per cent, were also required to put their stakes up for sale. The agreement also provided a formula allowing the partners to buy each other out.

The combined offer for sale lapsed last month leaving Sibelco free to launch its own bid yesterday.

Sibelco said yesterday it has arranged to buy the stakes of Ceramics and Quarzwerke. This would take its holding to 45.2 per cent, leaving it only 4.9 per cent short of winning majority control.

It said the Stock Exchange requirement to make an offer once the holding had gone above 30 per cent was the impetus for the bid, rather than a desire to take over over the company.

"The purchase of the Ceramics stake really was a tidy up operation. Rather than have the stake overhang the market, we decided to buy it.

Sibelco intimated that it was still "early days" to say what it would do with Watts Blake if it acquired control. However, it had always held the current management of Watts Blake in high regard.

Heavy sticky ball clay, which once produced tobacco pipes, is used worldwide to manufacture ceramics such as sanitary ware, wall and floor tiles and table ware. The largest deposit in the world, found in Bovey Basin near Newton Abbot in Devon, has been mined by the company since 1710.

Watts Blake also owns extensive clay reserves in Germany and in the US where in 1989 it bought United Clays, the second biggest ball clay producer in that country.

The company generates 85 per cent of its sales outside the UK, and estimates that it provides clay for 40 per cent of the European sanitary ware market, a third of the US market and half of the Far East market. It also claims to supply a quarter of the European and US floor tile market.

Ceramics is thought to need new funds to support its other business interests; it has unconditionally agreed to sell its shares to Sibelco at the offer price.

Quarzwerke, a private company producing silica sand, has also agreed to sell its shares "subject to Sibelco's ability to purchase shares under the City Code."

The concert party agreement, negotiated in 1990, arose after Sibelco and Quarzwerke acquired the 21 per cent holding in Watts Blake previously held by English China Clay. They subsequently increased their stake when Ceramics sold part of its holdings to the continental European companies.

Growth found in its customers' footsteps

Andrew Bolger on the strategy of Tibbett & Britten

SOUTH AFRICA, Canada and Portugal might seem an eclectic group of countries for a UK distribution and warehousing specialist to choose for its overseas expansion plans.

However, these varied territories are the focus for the rapidly growing international activities of Tibbett & Britten Group, the company previously best known for distributing garments in the UK for Marks and Spencer.

The common theme is Unilever, the Anglo-Dutch consumer products group which sold its stake in Tibbett to a management buy-out in 1984. The distributor has maintained a close relationship with its former parent, and Tibbett's businesses in the three countries all have their origins in that connection.

Mr John Harvey, Tibbett's chairman, said the overseas moves were in line with his group's strategy of following its multinational customers and then developing related business around these core contracts.

Mr Harvey was the director of Unilever who initiated the multinational's investment in Tibbett and led the management buy-out. He said: "We've got lots of buddies in Unilever and have always kept in touch."

The connection was underlined this month when Tibbett appointed Mr Michael Johnson, 59, as non-executive director. He had retired as head of information technology for Unilever in January, after 30 years. For the last three years he had been responsible for Unilever's information technology policies, designed to take advantage of the capability of open systems.

By maintaining Unilever-type reporting systems and financial disciplines, Tibbett has found it easy to do business with other multinationals.

This policy of establishing bridgeheads was clearly demonstrated in South Africa. Last June Tibbett paid Unilever £2m for SA Warehousing Services, which distributes throughout South Africa for Unilever and others. In November the total food distribution operation of Woolworth (South Africa) was acquired.

Tibbett's market capitalisation has grown tenfold since it came to the market in 1986, and has almost doubled since 1990. Last year it made a £31m rights issue to fund the acquisition of Silcock Express, a private company which distributes motor vehicles in the UK, France, Belgium, Spain and Portugal.

Last year the UK generated more than 90 per cent of group sales, but by the end of this year overseas operations should account for more than 25 per cent

The deal added motors to the group's four existing distribution specialities in fast-moving consumer goods, which include clothing and textiles, toiletries and cosmetics, groceries and DIY and electrical products.

Tibbett now operates in eight countries. Last year, the UK generated more than 90 per cent of group sales, but by the end of this year overseas operations should account for more than 25 per cent.

Despite this rapid spurt of growth Tibbett has made relatively few acquisitions. Its previous important deal was the purchase of Lowfield, the grocery distributor, in 1989 for £12.5m.

Mr Harvey said he preferred to grow business, rather than make acquisitions. His priority was now to infill in Europe behind the Silcock openings, particularly in France, Spain and Portugal. There were obvious gaps in Silcock's network, such as Germany and Italy.

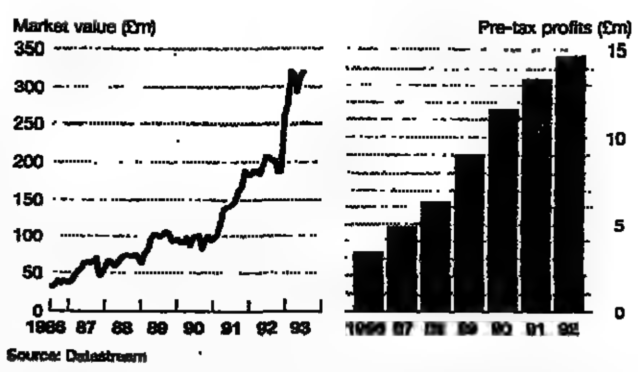
The group also intends to reinforce its investment in Canada and South Africa. Mr Harvey said there were plenty of opportunities in North America, but he intended to stick to Canada until they had built a significant regional base.

On South Africa, he conceded: "It is an unstable area, there's obviously some risk. But if you're taking a medium to long-term view, places like South Africa and China must be considered."

Tibbett has moved substantially away from its dependence on Marks and Spencer, which generated 60 per cent of turnover at the 1986 flotation. Although the M&S business has since grown three-fold, it currently accounts for only 11 per cent of group sales.

Concern about preserving M&S's commercial confidentiality has prevented Tibbett from giving a detailed breakdown of its results by division, but it seems likely that it will in future.

Tibbet & Britten



Source: Datastream

Despite what it described as "difficult trading conditions everywhere", Tibbett's sales rose 28 per cent to £231.8m last year. The group said 69 per cent of its growth was generated organically while 80 per cent of revenue was contractually based.

Development was particularly strong in the consumer and personal products divisions.

Although trading continues to be depressed in the clothing and textiles division, Mr Harvey said he was happy to keep the Fashion Logistics network, the biggest single specialised clothing distributor in Europe, which supplies 35 per cent of UK market outside the big chains. The Marks and Spencer business evolved out of the network, and it remains a potential source of separate dedicated distribution operations.

Clothing and motors offer the best hope of recovery and growth in the medium term. The group cites market research last year which forecast a 30 per cent increase in total new car and light vehicle registrations between 1992 and 1996 in the five countries where Silcock operates, with growth particularly in the UK, Spain and Portugal.

Mr Harvey is anxious not to raise expectations too much, but seems quietly confident about winning new business: "We have never been busier quoting."

COMPANY NEWS: UK

Manweb staying close to basics

By Michael Smith

MANWEB, the electricity company which distributes in Liverpool and North Wales, yesterday re-affirmed its strategy of concentrating on its basic businesses as it announced a 15 per cent increase in dividends.

Acknowledging pressure from some City sources to use its low gearing to diversify, Mr John Roberts, chief executive, said: "We want to stay close to the core. We will resist the temptation to take on businesses we cannot manage sensibly."

Manweb is the only one of the 12 regional electricity companies which is not involved in building combined cycle gas stations.

John Roberts: acknowledging pressure to diversify

The total dividend increase from 18.25p to 21p for the year ended March 31 1993 was the latest in a series of double figure percentage rises among electricity companies. It was achieved on profits before tax of £111.2m, up 17 per cent on the previous £94.7m. Turnover was £919.9m (£834.8m).

Earnings per share rose 18 per cent to 69.3p (58.7p). The final dividend is 14.9p.

Although distribution, the main earner, saw profits fall from £106.3m to £101.4m, supply turned a £5.3m loss into a £6.9m profit and retailing converted a £2.1m loss into a £500,000 profit.

On the supply side, Manweb won back the custom of 38 local large consumers who chose in previous years to contract with other regional electricity companies after the liberalisation of the market for users of more than 1MW. It also won the custom of 18 new customers outside the region.

Mr John Astall, finance director, indicated the company had less to lose than other regional electricity companies from the further liberalisation of the market next year. He said only 9.5 per cent of its customers were in the section of the market where competition is being introduced (between 100kW and 1MW), whereas the regional electricity companies average was 15.5 per cent.

The company's drive to cut staff has slowed, *with only* 100 jobs shed in the last year. However, it said profit per employee had improved by 15 per cent to £24,000 during the year.

Manweb already claims to have reduced staff by more than other regional electricity companies, with the total in the business now 4,350. Of these 3,465 are in the core business, a 25 per cent reduction on when the company was privatised.

The company plans to invest £12.5m on a network management system which will monitor transmission equipment and switchgear automatically. It expects to save £3m to £3.5m a year when the system is fully running.

Mr Bryan Weston, chairman, said the annual report would show that executive salaries rose by about the cost of living for the year just ended.

The pay bill for all staff will rise by about 3.5 per cent as result of a deal being considered by union members. The basic increase is 2.85 per cent, but the pay and reward system is also being restructured.

Coats regains control of Indian side

By Angus Foster

COATS VIYELLA, the textiles and clothing company, is taking advantage of India's relaxation of foreign investment rules by taking control of its Indian associate, Madura Coats.

Coats has increased its stake in the company, which is to be renamed Coats Viyella India, from 39.9 per cent to 51 per cent. The total investment of Rs604m (£12.25m) is payable in three tranches spread between now and next year.

The Indian operations were wholly owned until 1972 when the company was forced by changes in legislation to reduce its holding below 50 per cent. Following a relaxation of the rules on foreign shareholdings, Coats applied last year for government approval to again increase its' stake.

It will lift its holding through a preferential share offer at Rs65 a share, a steep discount to the recent market price of Rs275. The offer, which was approved by shareholders last month, will be followed by a rights issue next year at Rs30.

Dairy Crest confirms float plan

By Maggie Urry

DAIRY CREST, the milk and dairy products arm of the Milk Marketing Board, has confirmed its plan to float early next year.

It made the announcement *when* reporting a rise in pretax profits from £24.6m to £28.2m for the year to March 31, after exceptional restructuring costs of £26.9m (£20.9m).

Mr Geoffrey John, chairman, said that there were still many unknowns in the flotation and the industry itself was undergoing far-reaching change.

He said it was too early to be precise about the shareholder structure after the flotation, but that dairy farmers could hold about 70 per cent of the capital.

The farmers will receive *shares* representing the "free reserves" of the MMB, worth on average £8,000 per farmer, and will be offered shares or cash to settle their entitlement to the MMB's "rolling fund", totalling about £60m.

Dairy Crest also plans to raise new money and the group's market capitalisation could be about £250m. Schroders and Hoare Govett will be handling the flotation.

Mr John Houliston, chief executive, said that Dairy Crest had achieved a great deal but still had much to do to succeed in the "new world". He said: "We have no illusions as to the nature of the challenge that awaits us."

He said that when the MMB was abolished next year, Dairy Crest's first duty would be "to buy milk on a very competitive basis". He added that Dairy Crest was not committed to buying from Milk Marque, the milk buying co-operative which the MMB is planning as its successor.

Group turnover was unchanged at £1.16bn, although Dairy Crest, which is the buyer of last resort under the existing milk scheme, had bought 5.5 per cent less milk as milk quotas reduced production. Prices of milk for manufacture rose 16 per cent.

Operating profits rose from £59.2m to £62.2m, with margins up from 5.6 to 6 per cent. Greater operating efficiencies were being achieved, Mr Houliston said. Staff had been reduced by 1,300 during the year, and by 30 per cent over the last three years. Capital spending was running at about £30m a year.

Interest charges were reduced from £14.4m to £8.3m, with about £1m of the fall coming from lower interest rates and the rest from the reduction in net debt from £101.1m to £69.5m.

The company also announced a number of board appointments including Mr Graham Fish, as managing director of the dairies business. Five non-executive directors, with diary or commercial experience, will be appointed on August 1 in preparation for the float.

They are Mr Richard Fletcher, an MMB member, Mr Ronnie Frost, chairman of Hays, Mr Thomas Hugh Jones, an MMB member, Mr Paul Lewis, deputy chairman and finance director of Tate & Lyle, and Mr William Madders, a special MMB member.

NEWS DIGEST

Sheriff recovers to £465,000

SHERIFF HOLDINGS, the USM-quoted plant hire group, reported pre-tax profits sharply higher at £465,000, compared with £161,000, in the six months to March 31. The *shares closed 11p higher at* 111p.

The result – achieved on turnover ahead 21 per cent at £5.7m – was achieved by strict financial control of the core business and recent acquisitions, said Mr Richard Dunn, chairman.

In December, the group raised £2.85m net of new equity and this, together with strong cash generation, virtually eliminated borrowings at the half year, said Mr Dunn. Gearing at March 31 was 2 per cent, compared with 48 per cent six months earlier.

The interim dividend is raised from 1p to 1.25p, payable from earnings per share of 3.5p (1.7p).

Wellman improves but cuts dividend

Without the burden of closure *costs this time*, Wellman lifted pre-tax profit from £231,000 to £681,000 in the year ended March 31. The dividend, however, is reduced from 2.2p to 0.9p.

Mr Geoffrey Iley, chairman of this specialist engineer, said activity in all markets was lower but the result was broadly in line with expectations. Margins were under pressure and with no indica*tion of an immediate upturn*, the cost base would continue to be adjusted where necessary.

The forward order book, he added, was higher than last year but prospective margins had been eroded.

Turnover came to £23.7m (£24m) and trading profit to £796,000 (£1.02m). There was a *£250,000 provision for further* rationalisation, while last year's extraordinary £817,000 for closure costs has been adjusted to above the line under FRS 3.

Turnover included £1.87m from acquisitions (£1.36m from discontinued operations) and the respective figures in the trading profit were £101,000 (£75,000).

Earnings per share doubled to 1p. The dividend is reduced to keep in line with earnings; the final is 0.6p.

Ldn & Clydeside in black at midway

London & Clydeside Holdings, the USM-quoted housebuilder operating throughout Scotland, turned round from a loss of £120,000 to a pre-tax profit of £34,000 in the six months to March 31.

Turnover *fell to* £8.47m, against £10.8m, which included a £2.5m property disposal. Operating profit was down to £522,000 (£697,000) because 1991-92 benefited from £220,000 from associates.

Net interest payable, however, dropped to £488,000 (£817,000).

The interim dividend is held at 1.8p, payable from earnings per share of 0.2p (losses 0.6p).

House reservations in January, February and March showed considerable improvement and although the month-on-month increase had reduced, there seemed to be an underlying recovery in the market, directors stated.

Although there were some modest price increases, it would be some time before that was *reflected* in unit margins.

High Gosforth Park losses cut to £21,000

Pre-tax losses at High Gosforth Park, operator of the Newcastle racecourse, were more than halved – from £46,000 to £21,000 – in the 1992 year. Last year there was an exceptional charge of £60,000.

The outcome was struck on turnover up £99,000 to £1.13m. However, the cost of sales increased by 13 per cent from £892,000 to £1.01m and at the operating level there was a loss of £62,000 against £29,000 last time.

Losses per share came out at 27.7p (82.9p) and there is no dividend this year – last year a final of 15p was paid.

Monarch Resources losses deepen

Lower gold prices and reduced output continued to affect Monarch Resources, the London-quoted mining and exploration company with activities in Venezuela, throughout 1992.

The combination left the Revemin processing plant with losses of $1.84m, against profits of $186,000. Monarch's overall loss increased from $2.94m to *$4.87m (£3.2m). Turnover fell to* $6.97m ($9.35m).

Losses per share came out at 33.2 cents (20.6 cents).

F&C Smaller net assets advance 27%

Foreign & Colonial Smaller Companies lifted net asset value *per share by 27 per cent* – from 107.3p to 136.1p per share – over the 12 months to April 30.

The trust reported net revenue of £1.79m (£1.78m) for earnings of 1.98p (1.97p) per share. A proposed final dividend of 1.16p brings the total for the year to 1.84p (1.75p).

Melville Street net assets dip to 140p

Melville Street Investments, an investment trust specialising in venture and development capital, saw net asset value fall 10p to 140p over the year to April 30.

Directors said the fall was largely attributable to the reduced value of one of the group's investments in the Lloyds insurance market.

Net revenue edged ahead to £800,758 (£790,887), equivalent *to earnings of* 4.3p (4.2p) per share.

A same-again final dividend of 2.5p maintains the total at 4p but directors warned that some reduction in the distribution may become necessary as the company becomes fully invested. It currently has £3m on deposit.

LEGAL NOTICES

PONDHURST LIMITED
Formerly Mayflower Capital Market & Treasury Services Limited

NOTICE IS HEREBY GIVEN Pursuant to section 98 of the Insolvency Act 1986 that a Meeting of Creditors of the above named company will be held at 1-11 Hay Hill, London, W1X 7LS, on 23 June, 1993, time 2.45 pm for the purposes mentioned in sections 100 and 101 of the said Act. David Lowe of Cooper Lancaster Brewers, Aldwych House, Aldwych, London, WC2B 4HN is a person qualified to act as an insolvency practitioner in relation to the company who will during the period before the day of the meeting, furnish creditors free of charge with such information as they may reasonably require.

By Order of the Board
C. J. Maile
Director
11 June, 1993

PERSONAL

FINANCIAL TIMES SURVEY

Quotas limit the sale of beef, lamb and dairy products in key international markets: page three

NEW ZEALAND

A surging tourist industry is the country's single biggest export earner: see page two

Wednesday June 16 1993

Radical economic reforms introduced by the National party government have won glowing international approbation. The sacrifices which have been demanded of the ordinary citizen have led, however, to a sense of disillusionment with the political process, Kevin Brown reports

Sombre mood prevails

A DECADE after their political leaders embarked on a process of radical economic reform, New Zealanders are divided about whether the benefits have outweighed the costs.

A substantial improvement in most economic indicators over the past year has given the country what the OECD calls its best opportunity for years to achieve a sustained return to real economic growth. That is something New Zealanders have not enjoyed since their egalitarian South Pacific paradise began to run into economic problems after the oil crisis of 1973.

The OECD and most other outside analysts have reported glowingly on the impact of tariff and subsidy reductions, widespread privatisations, monetary prudence and cuts in social programmes.

But the reforms are far less popular inside the country. Indeed, outside the ranks of the conservative National government, the national mood is sombre. Many observers say New Zealanders have never been so divided.

The reason is the widespread perception among ordinary New Zealanders that they have borne most of the costs of the reform process without receiving any tangible benefits.

Many also believe they were misled by both the 1984-90 Labour government and its National (conservative) successor about the difficulties involved in restructuring the economy. The result has been disillusionment with the political process among those who have suffered from the reforms – especially unionised workers, students, pensioners, and consumers of state benefits.

Sociologists blame the dislocation caused by the reform programme for rising crime, growing poverty and increasing intolerance of Polynesian and Asian immigrants (though race relations are generally good). But the most dramatic result has been a surge in support for the replacement of the British-style first past the post (FPP) electoral system by a proportional system based on the German additional member system, known in New Zealand as mixed-member proportional (MMP).

Mr Ken Douglas, president of the Council of Trade Unions (CTU) says New Zealanders are simply "fed up" with the political process, which many believe has allowed right wing groups in the main parties to hijack the country.

"There is no fundamental belief that MMP is inherently a better system, but the present system has been disgraced because more than 50 per cent of people believe it is intellectually corrupt," he says. "There has never been majority support for the things that have happened here, and people just don't accept the values which can justify the huge costs we have had to carry.

"We are a much more racist, violent and sexist society than we have ever been before, and much of that has happened because people have felt alienated from a political system which does not represent them."

So far, the main beneficiaries of the support for PR have been Mr Winston Peters, a dissident former National MP, and Mr Jim Anderton, a former Labour MP who now leads the Alliance, a populist coalition of protest parties.

Mr Anderton's main theme, that only a more consensual style of politics can reverse the continuing destruction of New Zealand's egalitarian heritage, has struck a rich vein of public support. He has also skilfully tapped public anger with both main parties by asserting that they have repeatedly misled the electorate about the scale and difficulties of the reform programme.

"Roger Douglas (Labour's 1984 finance minister) said that if we took the hard decisions in the first 18 months of government then we would pick up the benefits in the last 18 months of the (parliamentary) term," he says. "But the short sharp shock has been going on for so long now that people are traumatised by it. It's like being in the dentist's chair for years – the pain goes on and on and there is no gain."

THE appeal of Mr Peters is more difficult to identify. He has built a large constituency by criticising his former government colleagues, and is said to be determined to become New Zealand's first Maori Prime Minister. Yet no-one seems to know what he stands for, unless it is "old-fashioned, private enterprise, development oriented" pump priming, as the Wellington Evening Post put it in a recent editorial.

The minor parties' best chance of breaking the mould of New Zealand politics will come in a referendum on MMP to be held at the same time as the next election, due by November. If the referendum succeeds, as seems probable, MMP will be introduced for the subsequent election, due by 1996. If that happens, neither Labour nor National is likely to be able to form a future government without reaching a coalition agreement with at least one of the minor party groupings. In the meantime, opinion polls suggest that the Alliance could win a substantial number of seats in the next parliament, especially if it comes to an electoral agreement with Mr Peters.

Labour's response to the emerging political volatility has been to ignore it in the belief that traditional supporters will return to the fold when they enter the polling booths.

Mr Mike Moore, the Labour leader, who was Prime Minister for eight weeks in 1990, has spent the 32 months since the last election distancing himself and the party from the 1980s.

Mr Moore's strategy has been to exploit the climate of bitterness about the decade of change by presenting Labour as the party which offers New Zealanders both credible economic management and a fresh start – "the great reforms of the 1980s were, in the main, necessary, but this is not the 1980s, and I am not going to be constrained by the legacy of the 1980s," he says.

Rhetoric aside, however, Labour has no intention of reversing the thrust of the restructuring. The party would retain the existing tight monetary policy favoured by the operationally-independent Reserve Bank, and it would aim for even greater fiscal conservatism than that achieved by National. In the main, a Labour government would restrict itself to relaxing National's deregulation of the labour market, and reversing or amending the government's unpopular changes to the health system and social programmes, which are intended to cut costs by improving targetting.

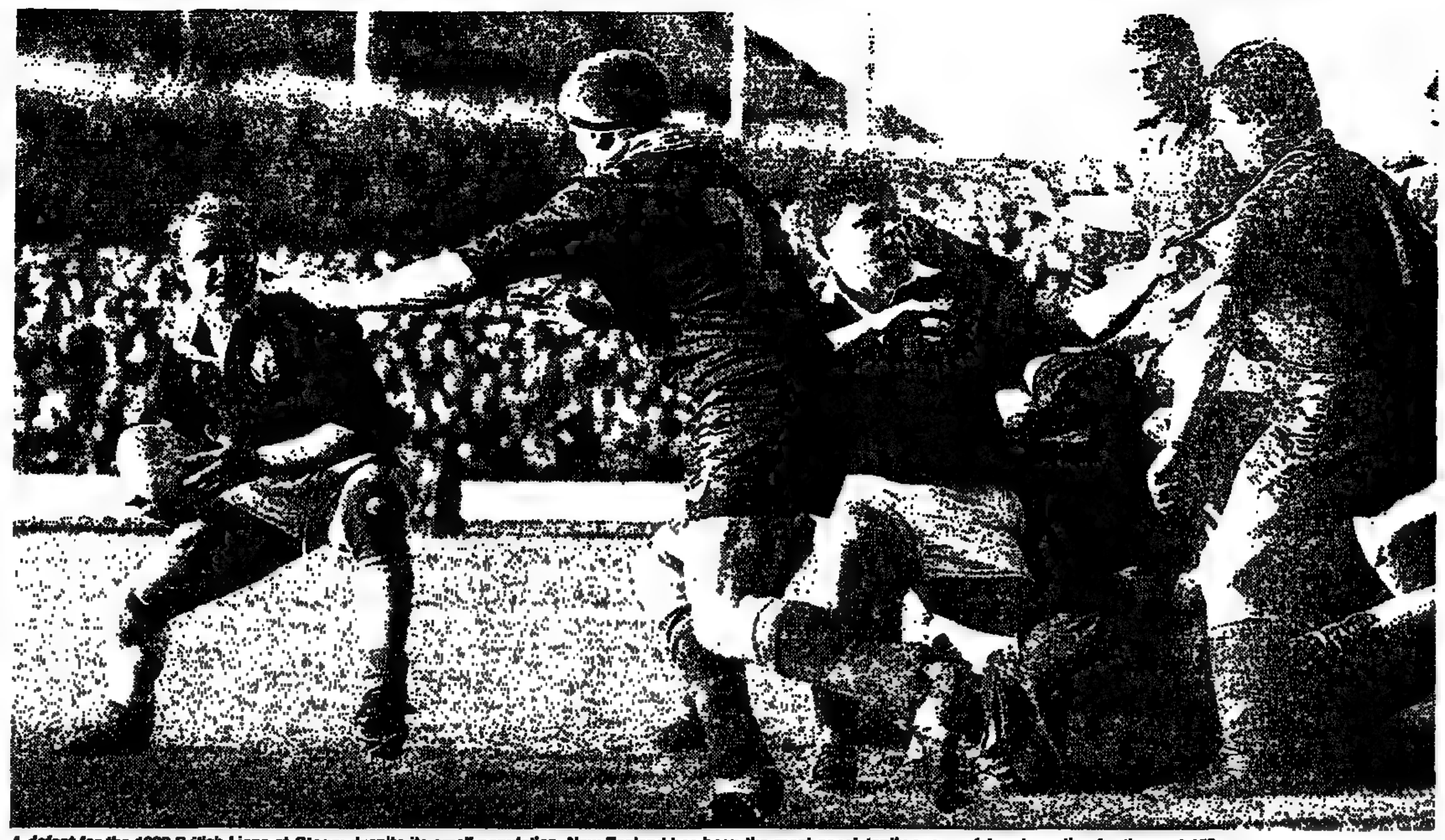
This policy moderation has been reassuring to the business and financial community, which has few qualms about the impact of a Labour government on New Zealand's ability to sustain the economic recovery. But there is little doubt that business would prefer to see the re-election of the National government, which has firmly committed itself to continuing to open up the economy and reduce the size of government.

ONLY a month ago, National looked unlikely to remain in office. However, recent improvements in the economy have triggered a rise in the government's poll rating which shows that the battle is not yet over. Ironically, the government is also seeking to exploit the dislike for change by presenting itself as the only party which will not plunge New Zealand into a further bout of reform – "we have two very substantial electoral cards to play. One is the recovery, and the other is that we are the only party which represents continuity," says Mrs Ruth Richardson, finance minister. "The opposition parties are now the ones which are seen as the parties which are offering destructive change."

The key influence on the election may well be the Budget, due next month. While a give-away Budget is unlikely, both Mrs Richardson and Mr Jim Bolger, the Prime Minister, have indicated that they want to extend the fruits of the recovery to ordinary New Zealanders.

Time is short, but if the government can do that, it may begin to heal some of the wounds which have so bitterly divided the country.

In the long term, that will be of more importance to New Zealanders than the colour of the next government.



A defeat for the 1993 British Lions at Otago: despite its small population, New Zealand has been the most consistently successful rugby nation for the past 100 years

THE ECONOMY: after a difficult decade, lower wage and interest rates are at last creating the conditions for sustained economic improvement

Exports put the bounce back

HOPES are rising that the New Zealand economy is emerging from the stagnation of the last decade in good shape to enjoy sustained, if moderate, growth through the 1990s.

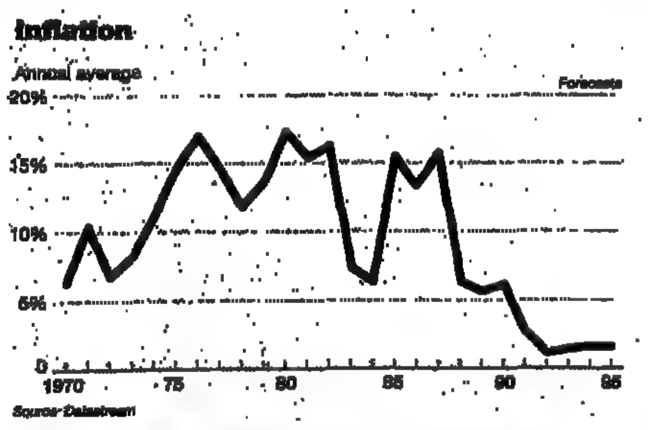
Gross domestic product (GDP) grew by 3 per cent over the 12 months to December, and is widely forecast to remain at about the same level for at least the next three years. Although relatively low by the standards of the Asia/Pacific region, this is nearly triple the average rate of growth in the seven years since the country embarked on a radical economic liberalisation programme.

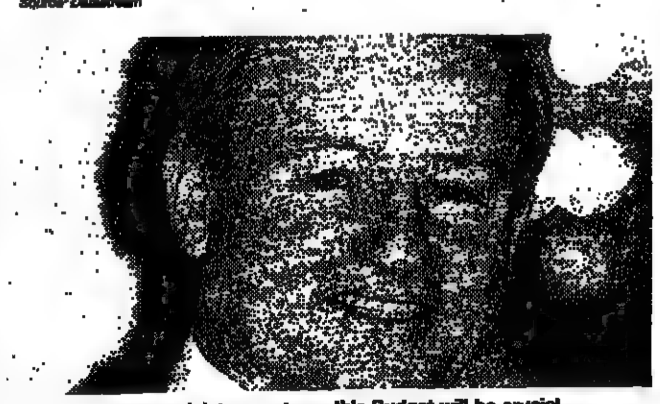
Not everyone believes the worst is over. The Trades Union Council, for example, points out that gross domestic product remains little higher than the level reached in September 1986. "The National government spent the first year in office (1990/91) converting a stagnant economy into a contracting one, and the second undoing that damage," the CTU said in a recent submission to parliament. "The growth... is simply a bounce back from the pits of the middle of 1991, when the economy plunged to a seven-year low."

But, for the less pessimistic, there are plenty of positive indicators. Inflation has been below 2 per cent for two years, unemployment has fallen to 9.8 per cent from a peak of 11.1 per cent, retail sales are rising, and business confidence is near its all-time high.

The Organisation for Economic Co-operation and Development, in a recent report, said New Zealand now has "the best opportunity for many years to transform economic recovery into sustained growth." The OECD also pointed out that the recovery is taking place against a background of subdued world economic growth and reductions in government spending, which have tended to depress the domestic economy.

The growth is being led by exports, reflected in a surplus on the merchandise trade balance of of more than NZ$3bn in each of the last two calendar years, compared with an average for the previous six years of about NZ$1.3bn. Underlying the recovery is the liberalisation programme, which the OECD once called





Jim Bolger, prime minister: next month's Budget will be crucial

"the most comprehensive micro-economic reform programme undertaken by any OECD country in recent years."

But the proximate cause of the improvement is threefold:

- Falling interest rates: five-year government bonds are down to about 7 per cent from 13 per cent in late 1990, and mortgage rates have fallen from more than 15 per cent to less than 9 per cent.
- Exchange rate movements: the New Zealand dollar has depreciated by about 8 per cent on a trade-weighted basis, delivering a substantial boost in competitiveness to exporters whose domestic costs are static or falling.
- Lower wages: unit labour costs have declined substantially following labour market deregulation in 1991. A survey by Bancorp, an Auckland merchant bank, suggests that labour costs are now 36 per cent lower than in Australia.

Mrs Ruth Richardson, finance minister, says with some satisfaction that New Zealand will have one of the fastest growing economies in the OECD in 1993/94 – a sharp contrast with most of the previous 20 years, when it has generally been one of the slowest. Mrs Richardson argues that the economy is finally overcoming the traumatic effects of economic restructuring, and is reaping the benefits of efficiency gains and fiscal prudence.

Nevertheless some dangers remain, principally the possibility of a collapse in the Uruguay Round talks on the General Agreement on Tariffs and Trade, and the sluggish performance of most of the other OECD economies – "they [other countries] also have substantial adjustments to undergo, and New Zealand is a very good demonstration of just how long it takes to get over the adjustment into the growth phase," says Mrs Richardson.

Domestically, the chief danger appears to be the uncertainty which could flow from a hung parliament or an unexpected change of government following the election due by November. There is little concern in the business community about a victory by the opposition Labour party, which began the reform process when it was in office from 1984 to 1990. However, a strong showing by the populist Alliance party would not be welcomed by business or in the financial markets, which fear a relaxation of the prudent fiscal and monetary policies of the last three years.

Fiscal policy has, in fact, been one of the government's failures – Mrs Richardson has long since abandoned her election promise to balance the budget by the end of this year. Nevertheless, substantial progress has been made, and the financial deficit (which excludes privatisation receipts) is likely to total more like NZ$2.5bn in 1992/93 than earlier projections of around NZ$3bn. This is equivalent to just over 3 per cent of GDP, which would maintain the downward trend from the peak of 3.6 per cent in 1990/91. The Reserve Bank is forecasting a fall to 2.6 per cent by 1995.

Mrs Richardson blames the missed target on "factors outside our control," mainly the rate at which the impact of corporate tax losses on government revenue is passing out of the taxation system. She says she is "leery" of setting a fresh target for the same reason, although the government expects to have been running budget surpluses "for some years" by 2000.

The other potential constraint on economic growth is the current account deficit, which deteriorated to NZ$2bn in the year to March after narrowing to just NZ$265m in the previous year. However, the deterioration appears to have been caused largely by one-off interruptions to exports, which restrained growth in the merchandise trade surplus, and adverse movements in corporate investment returns, which are expected to be reversed. Ms Brigette Leckie, an economist at BZW in Auckland, says that concerns about the deterioration have been over-stated, and forecasts a small surplus by 1994/95.

"This recovery is different. It has been much harder to achieve than past recoveries, but it has not been underpinned by pump-priming, and we are not likely to see the bottlenecks caused by inflation, interest rates and the current account which have limited growth in the past," she says.

Kevin Brown

The election later this year threatens to prove embarrassing for the ruling National party, writes **Kevin Brown**

A third force enters the political equation

TWO and a half years after coming to power in a landslide election victory, Mr Jim Bolger is New Zealand's most unpopular prime minister since opinion polling began.

Mr Bolger's National party government has trailed the opposition Labour party since shortly after the election, and has at times even fallen behind the Alliance coalition, a populist third party grouping. A month ago, the government was 16 points behind the Opposition in the most widely watched opinion poll, and even *loyalists* were *forecasting* that Mr Bolger's leadership could come under pressure unless things improved quickly.

Yet, *the economy grew* by 3 per cent in calendar 1993 – double the average rate in the previous 20 years, inflation is *steady at about one* per cent, and unemployment has fallen to 9.8 per cent from a peak of 11.1 per cent.

Recent polls have suggested that the government is finally beginning to make up ground on Labour, helped by a *successful overseas trip by* Mr Bolger and hints of a give-away Budget next month. But political analysts say there are *four main reasons why* National faces the possibility of a humiliating defeat in the next election, which must be held by *November*:

■ National won in 1990 because it gave the impression that the free-market reforms of the 1984-90 Labour government would be reversed. Its extension of the reforms to the labour market and social security left the government open to charges that it had misled the electorate.

■ Few of the benefits of economic recovery have yet flowed through to ordinary people. The result has been growing income inequality in what was once one of the world's most egalitarian countries.

■ Ten years of dramatic economic change has involved much of the population in painful restructuring. The governing party is the easiest target for angry voters, as Labour discovered three years ago.

■ New Zealand's political *landscape has been fragmented* by the strains which have accompanied economic restructuring, raising the *possibility of* volatile shifts in political support away from both main parties.

The initial split took place during the last Labour government, when Mr Jim Anderton, an amiable old-fashioned socialist with a colourful turn of phrase, took much of the party's far left into his New Labour Party. Against all predictions, Mr Anderton held his Christchurch seat at the election, and subsequently displayed considerable political skills in welding together a coalition of five minor parties, called the Alliance.

Some political analysts claim that the National Party could suffer a humiliating defeat in the next election, which must be held by November

Support for the Alliance has fallen to about 22 per cent in recent polls from a peak of nearly 40 per cent in late 1991, but its prospects could be transformed by a further split between National and Mr Winston Peters, the highly popular Maori MP for Tauranga. A Heylen opinion poll suggested last month that a party led by Mr Peters, now sitting as an independent MP, would win 26 per cent of the popular vote. Together, the Alliance and Mr Peters won 35 per cent support, which could be enough to win a three-party election under New Zealand's first past the post electoral system. The poll prompted rapid contacts between Mr Anderton and Mr Peters but so far the two men have held only "talks about talks." And there are a number of hurdles in the way of a successful electoral arrangement.

■ Much of the support for Mr Peters overlaps with support for the Alliance, especially in Auckland, the country's biggest city. Alliance candidates in many constituencies might be unwilling to step aside to give candidates supporting Mr Peters a clear run.

■ The alternative would be for Mr Peters, 43, to join the Alliance. But he would probably want to assume the leadership. Mr Anderton says he is willing to step aside, but only after a party conference, which would be hard to arrange before the election.

■ The Alliance is already strained by differences between New Labour and its partners: the anti-development Greens, the Maori rights Mana Motuhake party, and two renegade conservative parties, the Liberals and Democrats.

Mr Peters shares with all the parties an abhorrence for the deregulatory free market government policies of the last decade. But he is still a conservative – he voted, for example, for labour market deregulation, which is anathema to New Labour.

■ Mr Peters has maintained his popularity largely by avoiding setting out his own policies, leaving considerable doubt about where he stands. Much of his popularity might disappear if he was forced to make hard choices.

So far, Mr Peters is keeping *his options open* – "the ball is in Winston's court. He has indicated that he will take part in talks, but we are waiting for him to respond," says Mr Anderton.

Predictably, both the main parties cling to the hope that an agreement between the Alliance and Mr Peters will prove impossible to arrange, or that *it will fall apart* under the strain of an election campaign.

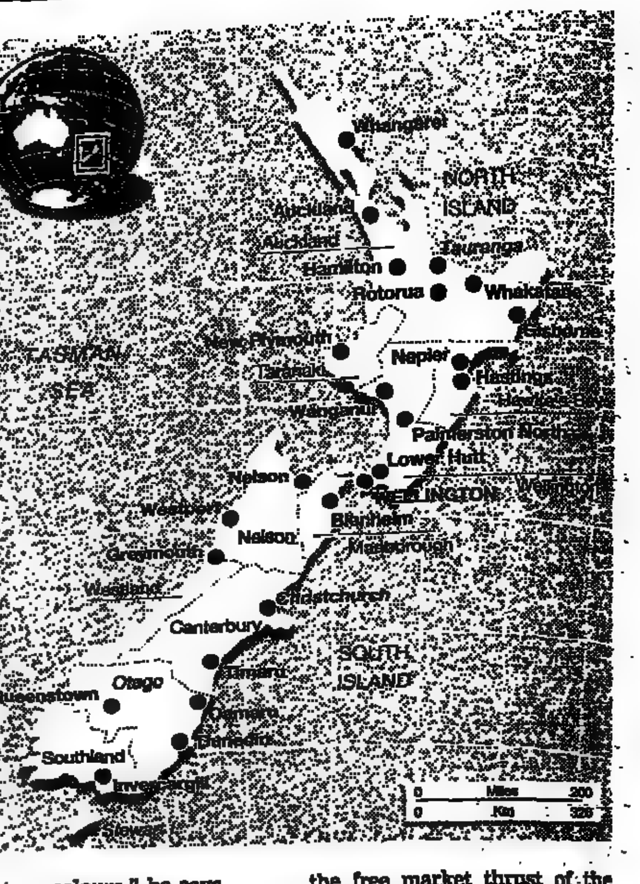
Mr Don McKinnon, Deputy Prime Minister, says National is confident *that* it can recover sufficient support to win the election "if we can demonstrate our strengths as managers of the economy." National is also counting on the historical tendency for government support to improve in the run-up to an election.

But Mr McKinnon admits that the government has been distracted by the internal battle with Mr Peters, who was given "an inordinate amount of time" to come into line before he was ejected from the party early this year.

The infighting has also hampered the government's attempts to highlight divisions between Labour's free market and socialist wings, which have been successfully papered over by Mr Mike Moore, the Labour leader – "probably we have not done a good job in exposing the Labour Party in its true colours," he says.

Mr Moore has spent the last 32 months distancing Labour from the record of the 1984-90 government, mainly by concentrating on the government's social security, health and labour market reforms. He has successfully resisted pressure to commit the party to reverse the free market thrust of the last decade, although it would re-introduce a measure of labour market *deregulation*.

Nevertheless, the election result remains unpredictable, at least until the shape of any agreement between Mr Peters and the Alliance becomes clear.




Celebration: Maori children dressed in traditional costumes

Political parties divided over radical reforms in industrial relations law

Fierce debate over contracts

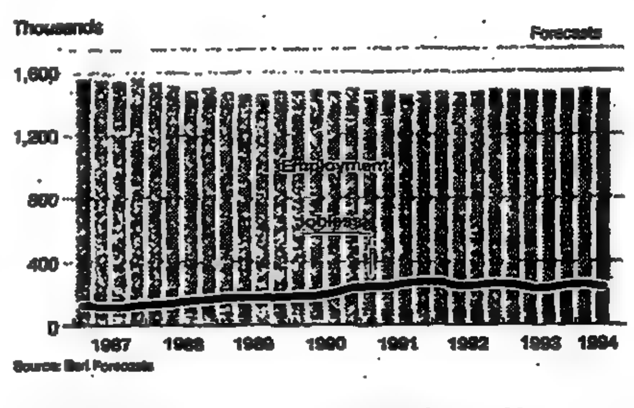
TWO YEARS after the implementation of one *of the most radical* reforms of industrial relations law achieved in any industrialised country, New Zealanders remain divided about the benefits and costs.

The Employment Contracts Act (ECA), which became law in May 1991, swept away a century of state regulation of the labour market in favour of a deregulated system which effectively by-passes trade unions.

Under the old system, which dated back to 1894, most wages and conditions were set centrally in negotiations between unions and employers' representatives, and were then legally ratified as occupational "awards." These awards covered all workers in each trade, *most of whom were also* legally required to be union members. The effect was that bargaining was difficult at company level, and almost impossible at plant level.

The ECA scrapped compulsory union membership and national awards in favour of civil contracts between employers and individuals or groups of workers, which are enforceable under civil law. Employees can negotiate their own contracts or appoint bargaining agents, which can be trade unions.

Labour force



Source: Bell Forecasts

Strikes are legal only during negotiations, but there are minimum entitlements for wages, holidays and sickness benefits. However, no consensus about the system has emerged, partly because of conflicts between various surveys as to its impact on job creation, working conditions and competitiveness. *Mrs Anne* Knowles, the Employers' Federations' labour market manager, says the ECA has been "crucial to the recovery now taking place in New Zealand. It was the last link in the deregulation of the economy.

"In the past, companies had to be competitive on every aspect of their operations, *except labour costs. Now they* know that if they don't get a competitive edge through negotiation they can't blame anybody else," she says.

The employers complain, however, that the impact of the Employment Contracts Act has been weakened by a narrow interpretation of the law by the Employment Court, which hears allegations of illegal activity by employers.

The Council of Trade Unions (CTU), agrees that the act has *reduced labour costs, but* claims that the ECA has failed to promote job creation, and has promoted an authoritarian *management style*.

"The act was a one-off hit at labour costs. It has produced a productivity boost, but the improvement in competitiveness is not sustainable because it has not been followed by an increase in business investment," says Mr Ken Douglas, CTU president. The opposition Labour Party claims the act breaches United Nations provisions on labour market practices established by the International Labour Organisation, *ILO*.

Mr Mike Moore, Labour leader, says that the ECA will be scrapped if the party wins the next election. There would be no return to the awards system, but trade unions would recover their lost bargaining rights.

Mr Moore says such a change would bring New Zealand into line with employment practices in other advanced countries. But the prospect worries the *employers*.

"Any change back towards a centralised prescriptive system with special rights for trade unions or employers' associations would be a retrograde step," says Mrs Knowles.

Kevin Brown

Improvements in race relations

Agreement welcomed by Maori people

THE government achieved a significant breakthrough towards settling long-standing Maori grievances this year when it gave financial backing to a deal which helped Maori tribes buying a half share in the country's biggest fishing company, Sealord.

The grievances date back to *the early days of British colonisation*; for generations, the Maoris have claimed that the British, and successive New *Zealand governments did* not honour the 1840 pact between both sides, the Treaty of Waitangi.

Both National and Labour governments have worked hard over the last decade at settling these problems. The Waitangi Tribunal was established to try to settle disputes particularly relating to land and fishing matters with the aim of finalising all grievances by the year 2000. However, the tribunal is not supposed to concern itself with land now owned by Europeans, and pessimists suggest there will be ongoing problems in the years ahead.

While some of the tribunal's decisions have been unpopular with some sections of the European community, there is widespread support with the view that the matters be dealt with promptly. There is also an acceptance that, in the past, the Maori people were unfairly treated, especially in land matters.

In the 1860s, for example, large tracts of valuable Wai*kato land was confiscated* by the government at the end of the so-called 'Maori land wars.'

The problem was that the areas taken were top-quality farm land confiscated from Maori tribes who had supported the government. The dissident tribes were left with their poorer quality land.

THE Sealord deal, which cost the government $175m, followed a Waitangi Tribunal ruling last year that Maori tribes were entitled to the deep sea fish resource around the South Island.

Prompted by South Island tribes, the government entered negotiations which allowed them to acquire a 50 per cent stake in Sealord, which controls about 25 per cent of the national fishing quota and most of the valuable hoki fish resource.

Brierley Investments bought the remaining 50 per cent. Earnings from the company will be shared around Maori tribes by a special commission.

In spite of some initial squabbling between different tribal groups, the Maori people have now welcomed the agreement, which it is hoped will lead to greater employment opportunities for a group which has been particularly badly hit by the protracted recession.

Unemployment problems are particularly acute among younger Maori people and, as a consequence, they out-number other races in jail. The government and other agencies, including Maori people, are working hard at solving these problems through promoting education and raising Maori pride.

The aim, according to the Minister of Justice Doug Graham is to ensure that the work of the tribunal will not only have the effect of improving race relations, but help lift the Maori people out of the dependency mode "where they have been for much too long."

Terry Hall

Big increase in holidaymakers from Asian countries

A surge in tourism

INTERNATIONAL tourists are discovering New Zealand in ever-larger numbers, helped in part by the increase in air services to the country and by strong promotions in Germany, Japan, Britain and the US.

Tourism New Zealand, the body charged with promoting the country abroad, has invested NZ$60m over the past 18 months and the industry is in a highly confident mood.

In 1992, tourist numbers grew by 9.6 per cent to 1.05m, the first time they had passed the one million mark. The growth has continued this year with arrivals running 10.2 per cent, ahead of last year in the January – April period. The tourism board aims for 3m arrivals by the year 2000.

New Zealand now earns more than NZ$3bn a year from tourism, making it the country's single biggest export earner, and the Tourism Board says it should be earning NZ$9bn by the year 2000.

The board chief executive, Ian Kean, says the growth in numbers will be carefully handled, especially in terms of the environment.

"The fresh, uncrowded, unspoiled nature of New Zealand is one of our main attractions – and we'll keep it that way.

"We offer a contemporary society with sophisticated cities, superb food and wine, a unique Maori culture, and physical and natural attractions which visitors say are unequalled anywhere in the world."

The industry sees its greatest growth potential as being part of the Asian Pacific region. Growing disposable income is seeing a sharp rise in visitor numbers, although they are still well below those from more traditional areas such as Australia, the US and Britain.

Recession in the US led to a 5 per cent drop in tourist numbers in the year to March to 169,519, and Australian visitor numbers were also down 1 per cent to 341,098. However, main promotions in Germany saw a 40 per cent lift in holidaymakers to 43,356, and they *stayed for an average 30 days*, longer than most other nationalities.

The number of British visitors rose by 22 per cent *last* year to 120,227, and they stayed the longest of any nationality, an average 33 days. However, this percentage is boosted by the number of UK residents making extended visits to stay with family or friends.

Most European visitors prefer to rent a car and go where the mood takes them, stopping at hotels or motels in the many small towns that take their fancy. So do Chinese visitors from Taiwan, Hong Kong and Singapore. Large numbers of Chinese settlers have lived in New Zealand from the gold-mining days of the 1860s.

Younger Japanese tourists are following the self-drive trend, although due to language difficulties their older compatriots tend to travel in groups by coach or airline. Rapidly developing airlinks, mainly pioneered by Air New Zealand, with Korea, Japan, Indonesia, Thailand, Taiwan and Singapore, have led to a sharp rise in visitor numbers from all those countries.

In the year to March the number of visitors from Taiwan rose by 46 per cent to a total of 91,387. There was also a 79 per cent increase in numbers from Singapore, and a 96 per cent rise *from Korea*.

As Asian tourist numbers climb, so does their ownership of hotels. Singaporean and Hong Kong companies have bought many of the country's top hotels over the past three years.

Terry Hall

Queenstown: hub of New Zealand's tourist industry

Year-round holiday venue

QUEENSTOWN, a township nestled at the foot of the sheer cliffs of a South Island alpine range known simply as The Remarkables, is New Zealand's most popular tourist destination. It is estimated that around 750,000 of the million overseas visitors who came to New Zealand *last year spent* at least a day at the resort – and most spent three days there.

Despite the numbers, it is possible not to be aware of fel*low tourists in this most* unusual destination, as I found during a fortnight visit with my family at the height of the *summer vacation this year*.

The reasons are simple: Queenstown is the centrepiece of a leading holiday region, with an amazing variety of attractions. Most American, Australian or European visitors "disappear" there for the day in *rental* or *hire* cars. From Queenstown, there are short drives to deserted gold mining towns, around Lake Wakatipu, or *further afield* to lakes such as Wanaka or Te Anau which are preferred by the local people as they offer better boating and fishing.

For the more adventurous, the Fiordland National Park is a 12-hour day trip, although others go by luxury coach, or take a 20-minute flight to Milford Sound. Milford in turn offers jet boating to the open sea, bush-walks and a three-day tramp over rugged terrain to Lake Te Anau. Known as the Milford Track, this is one of New Zealand's leading outdoor attractions.

Queenstown is a genuine year-round holiday centre: in the winter months, three of the country's top ski fields are within a 20-minute drive.

All summer sports facilities are available. Two excellent local vineyards produce award winning wines. Each claims to be *the most southerly vineyard* in the southern hemisphere, and the wines are distinctive and pleasant. Other small vineyards flourish throughout the region, and visitors are encouraged to go on a day long wine trail. The Earnslaw, said to be the oldest coal-fired passenger steamer still afloat *has the dis*tinction of *being* launched on the same day as the Titanic. It sails regularly to high country "runs" (the local name for sheep farms), where it berths, and passengers are encouraged to dine at the homesteads.


Fishing on the Kawerau River in the Queenstown region. For the more active there is bungy-jumping from the Kawerau Bridge

For the more active, a former Queenstown resident – and now millionaire – A J Hackett, offers bungy-jumping from the historic Kawerau Bridge into *swirling* waters of the ravine below. There is also year-round white water rafting, para-gliding, jet boat rides on the turbulent waters of the Shotover and Kawerau Rivers, safari trips and helicopter rides.

Queenstown is bubbling with confidence about its future as the hub of New Zealand's tourist industry. This is leading to a mini-construction boom: and the sleepy town of the 1960s and 1970s, is now host to 60 competitively priced and surprisingly good restaurants.

Terry Hall

Profits from agriculture generally remain low

Trade barriers still trouble farmers

AGRICULTURAL and primary products remain the mainstay of New Zealand's export efforts, and with access problems remaining in many key markets, the country is pinning its hopes on a satisfactory outcome of the GATT Uruguay round.

From the mid-1980s the country energetically removed all forms of farming tax incentives and farmer support systems, hoping to prove to the world that New Zealand could be a model of efficiency and show what an agriculturally-based economy could achieve in a liberalised trading environment.

Profitability is gradually returning to the sector, after a difficult transition period, when many farmers were forced to leave their properties because of financial difficulties compounded by high interest and exchange rates.

Today most farmers welcome the reforms, arguing through their representative body, Federated Farmers, that they are succeeding through a combination of hard work, efficient practices, and low inflation. Average farm profits remain low, however, especially for wool and beef farmers.

New Zealand continues to run into trade barriers, such as the decision by the US authorities to cut the quota for beef imports from 214,000 to 194,000 tonnes this year.

Access problems continue for lamb exports to the EC. Despite a quota of 200,000 tonnes, exporters believe strong demand could easily see

Quotas limit the sale of beef, lamb and dairy products in key markets

New Zealand supplying 250,000 tonnes this year.

In dairying, New Zealand is severely limited in the amount of cheese it can supply Britain, and faces a quota for butter. The New Zealand authorities attach great importance to further reform in the GATT round. This month, Trade Negotiations Minister Philip Burdon warned against pressure to "water down" measures to liberalise world agricultural trade. He said any outcome that reduced any of the proposals was unacceptable to New Zealand and other members of the Cairns Group of agricultural exporting nations.

"We have already made concessions and must be very firm in resisting any further reduction in the draft agreement," he said.

Privately, New Zealand negotiators are confident of a satisfactory outcome. However, no one expects it to solve all New Zealand's problems. For example, the removal of the present US quota system for beef would open up that market to imports from South American countries who are making strenuous attempts to eliminate foot and mouth disease.

The New Zealand agricultural scene presents a complex picture: producers of some commodities are achieving high profits, while others continue to struggle. High lamb prices in Europe and elsewhere have proved a bonanza to some farmers.

Sheep grazing near Lake Hayes, Otago. Prices for fleece wool are at their lowest level since the 1930s

New Zealand has had an extended summer of warm temperatures and light rain which has been perfect for lamb production. Farmers have been holding back stock from meat companies to get the best price. In turn, this is leading to difficulties for the companies to fill orders from the UK and elsewhere, and they are being forced to pay exceptionally high prices for lambs at livestock sales.

With a positive outlook for the next 18 months for sheepmeat prices, the price of a lamb has doubled since last year from around NZ$25 to NZ$50. However, the same farmer is receiving remarkably low prices for fleece wool, due to the international recession. It is estimated that real wool prices are at their lowest level since the 1930s.

In the US, the quota system has led to a big rise in prices for New Zealand beef at market, which are an important ingredient in the hamburger trade.

Last year the US took 76 per cent of New Zealand's beef production. This year it is taking 55 per cent. Supply problems in the US has led to the equivalent of a NZ 70 cent rise in the American market price in the past six months to around NZ$5.35 a kilogram.

However, this apparent bonanza benefitting New Zealand farmers, as the export companies are being forced to sell the remaining 45 per cent at lower prices elsewhere in the world, where they are running into competition from US exports.

Exports of fruit also present a confusing pattern. The abundant supplies of fruit of all types last year in the important European market, coupled with the loss of the US market led to big headaches for kiwifruit producers. Returns from kiwifruit tumbled from NZ$1bn to NZ$500m causing serious problems for the newly formed Kiwifruit Marketing Board which has ended up in financial difficulties.

The board is hoping that a smaller crop this year will eventually lead the industry to recover. Last year apple exporters earned exceptionally good money: most of their crop was sold in European and other markets before the glut of European fruit depressed prices.

So far this season New Zealand apples are selling well in Europe, especially the new varieties, but there is some concern at how more traditional varieties – such as Granny Smiths – will sell, due to increased competition from South Africa and other producers.

There is optimism that the agreement last month which saw the Japanese government agree to import New Zealand apples, will lead to good returns for orchardists over the next five years. This was a significant breakthrough: New Zealand is now the only country apart from Korea allowed to sell apples to Japan.

Last year New Zealand earned NZ$1.3bn from exporting fish, the first time the total had passed the $1bn mark. While optimism remains high that the industry will be earning $2bn a year by the end of the decade, the Fishing Industry Board warned last month that earnings would probably fall this year because of the depth of the northern hemisphere recession which is depressing prices for some varieties.

In recent months, however, forestry has turned out to be a real bonanza for farmers and others. Environmental problems in the US and Asia led to a quadrupling of the prices of some timber. While prices have since fallen back sharply, the price of a New Zealand radiata log is still fetching NZ$425 a cubic metre compared with NZ$150 this time last year.

New Zealand is a world leader in farming timber. Thanks to its warm climate with ample rain, trees flourish, and reach maturity in 20 to 25 years. With forecasts of growing supply problems over the coming years, especially in Asia, confidence is high that forestry will continue to pay handsome dividends.

This is leading many farmers to transform large parts of their farms to farming radiata pine trees – a process that is making a dramatic difference in the New Zealand landscape.

Terry Hall

KEY FACTS

Area	270,534 sq km
Population	3.48 million
Head of state	HM Queen Elizabeth II
Currency	New Zealand dollar (NZ$)
Average exchange rate	1991 $1=1.7265 NZ$
	1992 $1=1.8584 NZ$

ECONOMIC INDICATORS

	1991	1992
Total GDP ($bn)	42.9	42.1
Real GDP growth (%)	–1.1	3.1
Components of GDP (%)		
Private consumption	64.1	n.a.
Total investment	16.9	n.a.
Government consumption	16.5	n.a.
Exports	29.3	n.a.
Imports	–27.5	n.a.
ANNUAL % GROWTH IN:		
Consumer prices (%)	2.6	1.0
Producer prices (%)	0.8	2.1
Wage rates (%)	2.5	0.9
Ind. production (%)	–5.0	1.3
Employment (%)	–1.1	–3.7
Narrow money (%)	–1.6	3.1
Broad money (%)	8.8	8.3
FT-A share price index (%)[1]	17.8	–4.1
Reserves minus gold ($m, Dec)	2,950	3,079
Discount rate (% pa,year-end)	8.30	9.15
Govt bond yield (% pa, avg.)	9.94	8.37
TRADE:		
Current account balance ($m)	47.6	n.a.
Exports ($m)	9,670	9,771
Imports ($m)	8,416	9,152
Trade Balance ($m)	1,254	619
Main trading partners (%)[2]	Exports	Imports
Australia	21.1	22.0
USA	12.8	16.7
Japan	15.9	15.6
UK	6.2	6.4
EC	14.5	18.0

(1) Percentage increase at year-end over previous year-end.
(2) Percentage share of trade in 1991.
Sources: IMF, World Bank, OECD, Datastream, FT Statistics

Manufacturing has responded to the new economic climate

A supplier to niche markets

MANUFACTURING industry is recovering from the sharp shocks it received over the past decade as a result of the efforts by successive governments to restructure the economy.

The real value of sales grew 6.7 per cent in 1992, a complete rebound from the 6.3 per cent contraction in 1991.

The latest figures from the Manufacturers' Federation show that the ratio of pre-tax profits to sales in the 1992 year was 7.4 per cent, up from 6.4 per cent in 1990. The general manufacturing sector showed real growth in exports of 15.1 per cent compared with 1.7 per cent in 1990, and some industries were facing capacity constraints. The sector has also seen the first growth in employment, and hours worked for six years.

However, the federation's survey says that the sector's biggest worry has been the growing amount of imports in the domestic market. Industry had already taken a series of knocks from 1980 onwards as the National government moved slowly towards tariff reductions, especially in textiles. It received a setback from 1984, when the the reformist Labour government, virtually overnight and without warning, decided to deregulate the economy and open it to import competition, with the aim of making the industry focus on exports.

From 1960 manufacturing had expanded strongly under the combined stimulus of import protection and a range of government incentives, aimed at securingDevelopment full employment and economic diversification.

The changes in the 1980s severely damaged industry morale, and led a number of international companies to relocate their factories to Australia and elsewhere where tax and other incentives were available. Many industries became uncompetitive, and their owners closed them down.

Competitive advantage: New Zealand's meat exporting industry is cutting manufacturing costs by introducing advanced processing techniques

Industry's efforts to respond to the new environment created by these changes was, furthermore, hampered by the combined effects of financial sector deregulation, and the subsequent share market boom, which saw the channelling of investment towards speculative endeavours.

The Labour government, too, deliberately ran a high exchange rate policy in an unsuccessful attempt to control domestic interest rates and inflation. The domestic market entered a severe recession from 1988, and the manufacturing sector was also struggling against the Labour government's reluctance, or slowness, to deregulate other markets, such as labour, transport and shipping. The high value of the dollar led to a flood of imports, which were by then virtually uncontrolled.

Peter Coakley, of the manufacturing advisory group said in a recent detailed report that the first signs of industry recovering began to be noted in 1989, as the benefits of the economic reforms became stronger and new export oriented strategies of manufacturers began to generate results.

"For a time this was masked by continuing retraction in various parts of the sector due to imports, but the extent of the new competitiveness in manufacturing is evident from its increased competitiveness, rising confidence, and the resurgence of exports across a substantial part of the sector in the past year."

The present National party government has provided two important benefits to the sector. One has been a relaxation in the Reserve Bank's inflation target, which was given an extra year to reach nil inflation. This allowed it to relax monetary policy and led to a fall in the value of the Kiwi dollar.

In recent weeks, however, the value of the Kiwi dollar has risen strongly, owing to improving economic signals. This has led to protests from manufacturers, especially those dealing with Australia, where the currency has weakened sharply. There has also been a fall in domestic interest rates from around 17 to 10 per cent over the past two years.

However, the main beneficial change has been the Employment Contracts Act, which effectively weakened the power of the trade unions *(see facing page)*. Initially, this led to a fall in incomes, though latest figures show wages are growing due to increased productivity payments. Real sales generated per hour in the manufacturing sector are running at a record level.

"Manufacturing have been able to maintain high productivity in spite of increasing staff numbers and the totals of hours worked. This indicates that the reform of workplace practices and management systems is providing the basis for a sustained improvement in the international competitiveness of New Zealand businesses."

In 1992, manufacturing unit costs of labour fell by 5.5 per cent compared with a 4.2 per cent rise in Singapore and a nil change in Australia. Munro McLennan, an executive with UK meat group, Weddell Crown, said recently that the export meat industry was a "magnificent example" of the changes taking place in processing.

Previously unions banned more than eight hours work at a plant, which led to costly duplication. Now three-shift plants are common, industrial conflict seems non-existent.

The geographical pattern of export trade has changed significantly

productivity payments are common, and workers are undertaking more complex processing tasks.

New Zealand manufacturers see their future as a supplier of niche markets. This has been fostered by the way industry developed. Many companies, such as white goods maker, Fisher and Paykel, became adept at handling small production runs during the years of import protection. This the industry believes has brought competitive advantages in terms of product development, innovation, quality controls and the ability to supply short run or urgent orders.

Industry is now export oriented, and figures show that, despite the severe setbacks of the later 1980s, has more than doubled its share of total export receipts over the last 20 years, a trend that will continue. New Zealand manufacturing export growth at 7.3 per cent last year continues to be higher than the OECD average of 5.6 per cent.

The geographical pattern of New Zealand's export trade has also changed significantly over the past 15 years as markets have become more diversified. In 1976 Australia took 43.1 per cent of New Zealand's basic manufactured exports, Japan 32.3 per cent and a range of other markets 24.6 per cent.

Last year Australia's share was slightly lower at 42.7 per cent, Japan's considerably lower at 16.5 per cent, while a greater range of destinations, notably Thailand, Singapore, Hong Kong and Taiwan, took 40.8 per cent of total manufactured exports.

Terry Hall

Focus on Napier, Hawke Bay province

Protection for a unique legacy

NAPIER, the capital of Hawke Bay province on the east coast of New Zealand's North Island, is a hidden jewel with a tragic history and a glorious, but little known, architectural heritage.

The mid-summer sun was shining brightly on February 3, 1931 when an earthquake measuring 7.9 on the Richter scale hit the town without warning, demolishing most of the commercial district. The two and a half minute series of tremors killed 258 people throughout Hawke Bay, including 162 in Napier, then a town of just 16,000, and 93 in Hastings, a few kilometres to the south.

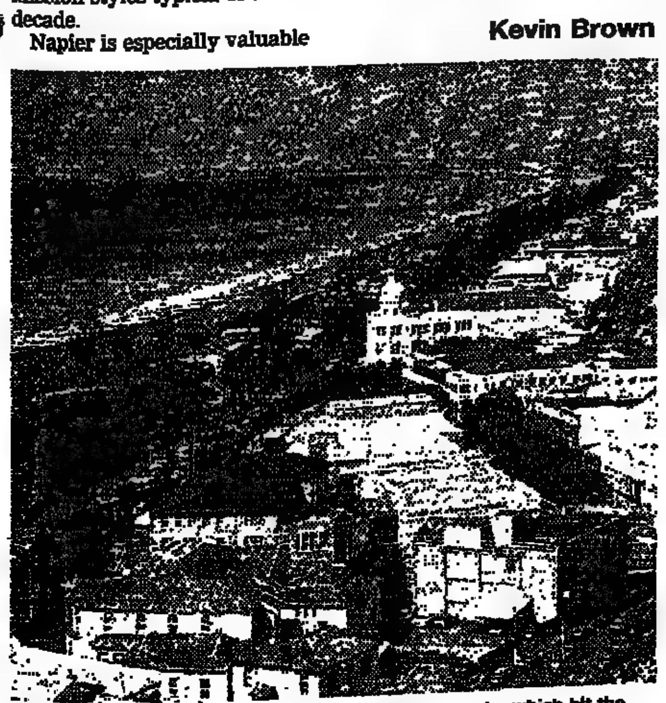
The disaster stunned New Zealand, then still a frontier society with less than 100 years of European settlement behind it. But within two years, both Napier and Hastings were rebuilt. The result is one of the best collections of 1930s buildings in the world, including dozens of excellent examples in the Art Deco, Stripped Classical and Spanish Mission styles typical of the decade.

Napier is especially valuable because its devastated town centre was rebuilt to a coherent plan by a group of forward-looking local architects for whom the modern styles represented a break with the tragic past.

Amazingly, the town's unique architectural legacy was virtually ignored until the mid-1980s, when the proposed demolition of a particularly fine building prompted the formation of an Art Deco Trust to defend the buildings. Mr Robert McGregor, chief executive, says 11 buildings were demolished in the 1980s. A conservation-minded council has introduced planning guidelines to encourage refurbishment, but the threat of further demolition remains.

"Some of the buildings that were knocked down were not greatly important, but our argument is that *any* building which is lost creates a gap in the smile. It's like losing a front tooth – you still have all your other teeth, but it ruins your appearance," says Mr McGregor.

Kevin Brown



Napier today: within two years of the severe earthquake which hit the area in 1931, the centres of Napier and Hastings were rebuilt

Gatt attacks Lome convention over bananas

By David Dodwell, World Trade Editor, in London, and Canute James in Kingston

THE LOME convention of preferential trading arrangements between European Community members and their former colonies is expected to face its greatest threat today, as a dispute panel of the General Agreement on Tariffs and Trade (Gatt) condemns the convention as contrary to international trade rules.

In what was being described yesterday as its hardest hitting panel report ever, the Gatt panel is expected to uphold on all counts a challenge from Latin American banana exporters that the EC's preferential banana import regime for developing country members of the African, Caribbean and Pacific grouping is discriminatory, and at odds with fair trade rules.

The EC and a group of ACP countries were planning yesterday to block the panel report from being adopted by the Gatt Council when it meets this afternoon.

But there was no disguising their consternation over the ruling.

"The report is drastic in its implications," one banana trade expert noted. "It will affect not just Lomé countries, but any developing countries that have preferential trading arrangements with specific groups of countries."

The Gatt dispute panel, established in February after a complaint filed by Costa Rica, Colombia, Guatemala, Nicaragua and Venezuela, ruled that the Lomé arrangement could not be defended as a free trade agreement, or customs union, since the concessions are just one way.

It also rejected the EC defence that these preferences were allowable for developing countries – arguing they benefit just a small group of countries, and discriminate against a large number of developing countries. The basic Gatt principle of "most favoured nation" status demands that preferences extended to any one country or group of countries cannot be withheld from others.

The panel offered a a straw to clutch at to the EC by saying it could seek a formal waiver from Gatt rules to defend its Lomé commitments. The US has obtained waivers for various preferential trade arrangements which it recognises as falling outside international trade rules – not least its accord with signatories to the Caribbean Basin Initiative.

The EC was yesterday predicting it would successfully weather this afternoon's storm, not just because they could block adoption of the panel report, but because it applied to a banana trade regime that is due to be replaced on July 1.

The EC's agriculture ministers have proposed that from July there will be a 2m tonne per year quota for Latin American fruit, and that this will attract duty of Ecu100 per tonne. Imports of Latin American fruit above this level will attract a duty of Ecu850 per tonne.

This will bring brief comfort, however. The Latin American banana exporters are expected to win approval at today's council for a new panel examining the new banana import regime. Much energy will be spent by Caribbean exporters aimed at ensuring the panel is forced to deliberate for six months, rather than follow an accelerated three-month procedure. They hope this would allow the new banana regime to become safely established.

"The most important element of our strategy now is to avoid at all cost the fast track procedure which will be requested by the Latin American countries when they request a second panel to look at the regulations governing the banana regime," said Mr George Brizan, Grenada's agriculture minister.

ACP banana exporters face a further serious hurdle on Friday this week when the European Court of Justice hears a demand from German banana importers for an injunction delaying introduction of the new regime.

Germany has in the past largely imported "dollar bananas" from Latin America, and has been deeply unhappy about new single market arrangements which would force importers to share the cost of the ACP preference scheme, significantly raising the price of bananas for Germans, who are among the world's largest consumers of the fruit.

Some ACP members were also complaining yesterday that the banana panel ruling "somewhat pre-empts" the work of a Gatt working party inquiring into the Lomé convention, which is on the agenda to be established at today's council meeting.

Derivative products help to cap gold price rises

David Blackwell on the impact of an ever widening range of derivative products on the global market

FT AN EVER widening range of derivative products brought an estimated 86 tonnes of gold on to the market last year, the Financial Times World Gold Conference in Istanbul was told yesterday.

While not a huge amount, this was sufficient to cap any price rallies, especially in the short term, said Ms Jessica Jacks, an economist with RTZ. The figure would have been much higher if new business from options and other derivatives had not been offset by a reduction of almost 115 tonnes in outstanding gold loans.

At the end of last year the total amount of gold associated with outstanding producer derivatives was 1,215 tonnes, up from 1,130 tonnes in 1991, Ms Jacks estimated.

Options increased from 203.5 tonnes in 1991 to 282.4 tonnes last year, while other derivatives increased by 156 tonnes in the same period. At the same time forward sales fell from just over 280 tonnes to 244.5 tonnes.

Average realised prices hedged for this year were $385 a troy ounce for Australian producers and $370 for North American producers. "Bear in mind that at the end of 1991, the average weighted hedged prices well exceeded $400 in both Australia and North America," Ms Jacks said. "Throughout 1992, therefore, the producers accepted lower and lower hedged prices."

If the gold price were to rally and stabilise around $420, "a number of mining companies could begin to feel a little less than happy with their hedged positions," said Ms Jacks.

A survey of mining companies showed that for a large majority the percentage of their production already hedged and their planned output were the main determinants in their decision making. "The dollar price and local price of gold surprisingly ranked only third," said Ms Jacks.

Most mining companies said they would be prepared to buy back their forward sales, although most did not consider they were over-hedged.

Many had been offered exotic options, but relatively few made use of them because they did not fully understand the principles and pricing mechanisms of the instruments.

She said creators of exotic options should be wary of over-complicating the product or the way it was presented.

The past 18 months had also seen the emergence of between 10 and 20 central banks as option granters, Ms Jacks said by writing call options, they earned a premium, giving some return on their gold reserves. About 466 tonnes of gold is thought to be involved.

It was impossible to predict what sort of "weird and wonderful" instruments would emerge in the future, Ms Jacks said. "For each price profile, thrre is considerable latitude for highly complex products, each with a specific application and target market. Declining prices or sharply increasing prices lend themselves to a derivative of some description."

Mr Ian MacDonald, precious metals marketing manager at Credit Suisse, told the conference the availability of over-the-counter options and derivatives had revolutionised the gold market. A typical trader would no longer say his biggest client was a central bank or mining house – but the options department of his own company.

He described the main effects of the derivatives on the gold market as:

- The prolongation of existing market trends, or the acceleration of new trends.
- Increased trading in gold, rather than holding it as a long term asset.
- Increased sophistication of market operators – including banks, mines, central banks, investors, institutions and hedge funds.
- The setting up of hedging and speculative positions for small capital outlay.

Turning to the recent gold rally, Mr MacDonald said the markets had a habit of going after volume. The largest volume in the option book had been the $400 and $450 strikes, he said.

"Therefore it is highly likely that at some point a move over $400 is to be expected because of the sheer volume of calls that have been written."

Mr Frank Veneroso, a partner in Omega Advisors, suggested that the widening gap between supply and demand could force the price sharply perhaps to $1,000 a troy ounce in the next five years.

The supply over five years from world mines and scrap might be expected to expand by 10 per cent to perhaps 3,000 tonnes a year. But demand excluding Western investment would grow by 6 to 7 per cent each year to almost 5,000 tonnes a year.

Such a gap would lead to a real price of $700 in 1992 prices – or $850 after inflation of around 3 to 4 per cent a year. Market equilibrium would then take it through to 1,000 a troy ounce, he suggested.

Demand for gold from regional markets in the Middle East, India, South-east Asia and China was at record levels again last year, helping to digest the highest level of central bank sales since 1968, Mr Timothy Green, chief consultant to Gold Fields Mineral Services, told the conference. In the first quarter of this year, with gold around $330 a troy ounce, demand was soaring to even higher levels. "The price simply had to get to a higher trading range to cool the physical demand," he said. "In my view we would otherwise have been heading for global demand of not far short of 4,000 tonnes this year on mine output of about 2,200 tonnes."

The regional markets were price sensitive so the demand would not be sustained, he said. Nevertheless, they provided a genuine floor, and indicated when people in many currencies regarded gold as cheap.

Zimbabwe tobacco growers face crisis

By Tony Hawkins in Harare

ZIMBABWE'S TOBACCO growers meet in Harare today at a time of deepening crisis in their industry.

With a quarter of the 1993 crop having been sold on the Harare auction floors, the tobacco price is averaging 94 US cents a kilogram, down 43 per cent on last year's average and more than 70 per cent below the record US$3.25 a kilogram, achieved in 1991.

Last week, Mr Ian Alcock, President of the Zimbabwe Tobacco Association, which represents growers, told farmers to cut production by between 30 and 35 per cent. He said the industry should produce a 1994 crop no larger than 150m kg, compared with the 230m kg estimated for this year.

The ZTA is likely to come in for sharp criticism from some growers for its failure to keep them better informed on world market trends. But the association will argue – with some justification – that the swing from a sellers market to one of overproduction and oversupply was very sudden and all other producing nations were caught out in the same way.

So far this year, 55m kg of flue-cured tobacco have been sold on the auctions – 24 per cent of the forecast crop of some 225m kg.

In the past prices have tended to harden markedly in July and August, when the high quality leaf comes on to the floors, but growers and merchants say this is not going to happen to anything like the same extent this year. Price forecasts for the season range between a high of US$1.20 and a low of $1 a kilogram.

The tobacco crisis has far-reaching implications for the economy. It means there will be negligible growth in the country's economy and exports will grow only marginally, if at all. The build-up of a tobacco stockpile of about 160m kg this year will impose new strains on the banks, which will not only have to carry tobacco growers through a second difficult season after last year's drought, but will be called upon to finance a stockpile worth more than US$1.5bn. This is likely to mean that interest rates will remain high for the rest of the year, thereby exacerbating the squeeze on farm cash flows and making it difficult for tobacco growers to diversify. One forecast suggests that the tobacco sector will lose some US$50m in 1993.

There are no obvious diversification opportunities. Many tobacco growers will probably switch into maize, raising the spectre of a re-run of the 1980s crisis when Zimbabwe built up a massive stockpile of maize, which it could not afford to maintain and was unable to export.

Maize industry experts are warning growers against this, pointing out that the maximum export market for the industry is probably in the region of 300,000 tonnes.

The beef industry is in serious trouble with weak demand at home and abroad and farmers continuing to destock with serious implications for long-term production. Horticulture is constrained by high transport costs, while profitability in cotton is uninspiring.

With industry leaders warning that the crisis will last for another two or three seasons, the locomotive that has driven the Zimbabwe economy for much of the past 40 years seems to have run out of steam.

Perhaps even more disturbing are the signs that agriculture, as a whole, faces a difficult period over the next few years, highlighting the urgent need – from Zimbabwe's viewpoint – for an upturn in metal prices.

MINOR METALS

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,550-1,620 (1,590-1,640).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.25-2.50 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.44-0.50 (same).

COBALT: MB free market, 99.8 per cent, $ per lb, in warehouse, 13.40-14.00 (13.80-14.50).

COBALT: MB free market 99.3 per cent, $ per lb, in warehouse, 10.40-11.00 (10.90-11.70).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 115-135 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.25-2.30 (2.20-2.35).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.70-5.40 (4.70-5.40).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 27-39 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.30-1.40 (1.30-1.40).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.10 (same).

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	-1,675	to 1,816,525
Copper	+6,825	to 443,125
Lead	-325	to 259,175
Nickel	-1,740	to 93,090
Zinc	+3,500	to 675,125
Tin	+85	to 20,035

Dairy farmers look forward to higher prices for milk

By Deborah Hargreaves

DAIRY FARMERS can look forward to higher prices for their milk when the market is liberalised and the Milk Marketing Board is abolished in April next year, according to Mr Andrew Dare, chief executive of the MMB.

"European milk prices are a lot higher than ours – only three countries pay prices as low as in the UK – and most UK milk is of a higher quality than the lower fat European varieties," Mr Dare said. He expects farmers to see an additional couple of pence per litre for their milk in spite of an over-supply in the market.

Interest from farmers in the Milk Marque – the planned successor to the MMB – has been encouraging and the board hopes to be able to sign up 80 per cent of farmers for the new voluntary co-operative.

Some food companies are setting up schemes to buy milk directly from farmers, but Mr Dare said these were asking farmers to adopt a high risk strategy by linking themselves to the fortunes of just one customer.

This year's milk price to farmers is 22p per litre and is likely to rise to 23p per litre by the beginning of next year, Mr Dare said.

The MMB's costs came to 1.4p per litre of which 1.1p goes on transport.

Announcing the MMB's annual accounts, Mr Dare said last year had produced a surplus of £3.31bn for producers compared with £2.23bn the year before.

The amount of milk sold by the MMB dropped slightly by one per cent to just over 11m litres. The doorstep market for milk declined 7 per cent but this was compensated by an increase in shop sales.

The number of milk producers, however, continued to decline last year when the number of registered dairy farmers dropped by 2.6 per cent.

Computer bugs at New York exchanges

By Laurie Morse in Chicago

A COMPUTER problem disrupted price reporting for all of New York's major commodity and futures exchanges yesterday, resulting in delayed opening and shortened sessions.

A representative of the New York Mercantile Exchange said the cause of the computer disruption had not been determined.

The exchanges are located in the World Trade Centre building, which was subject to a terrorist bomb blast in February.

All the exchanges had managed to open by 11.30 EDT and said the shortened sessions would not affect the day's settlement prices.

WORLD COMMODITIES PRICES

MARKET REPORT

The GOLD market firmed yesterday, shrugging off signs that US inflation pressure might be easing. Having dipped early on by $1 the London bullion market price rallied to close $1.80 up on the day at $365.75 a troy ounce. "I think the market got itself a bit short and when buying came in, people ran for cover," one dealer said. After the price bounce another dealer commented: "I would regard anything around $363 [the low reached in the initial fall] as an opportunity to buy". At the London Metal Exchange the TIN market came under renewed pressure as traders became increasingly concerned over rising stocks, growing production and sluggish demand. A slide through $5,100 a tonne for three months metal triggered stop-loss selling and the price ended at a 20-year low of $5,070 a tonne, down $90. London's robusta COFFEE market reversed an early setback to end $2 up on the day in the September futures position, at $922 a tonne, near the middle of the recent trading range. The COCOA market remained quiet with nearby futures contracts scoring small gains.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Jul)		+ or -
Brent Blend (dated)	$17.25-7.27	-0.37
W.T.I (1 pm est)	$19.04-9.06z	-.305
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$200-202	-1
Gas Oil	$164-165	
Heavy Fuel Oil	$58-60	
Naphtha	$171-173	-2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$365.75	+1.80
Silver (per troy oz)♣	427.0c	+7.0
Platinum (per troy oz)	$376.35	-6.15
Palladium (per troy oz)	$128.00	-0.25
Copper (US Producer)	86.50	
Lead (US Producer)	34.63c	
Tin (Kuala Lumpur market)	12.90r	-0.15
Tin (New York)	236.5c	-3.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	142.64p	-1.08*
Sheep (live weight)†♠	109.18p	-10.54*
Pigs (live weight)†	86.82p	-4.55*
London daily sugar (raw)	$283.9	-3.5
London daily sugar (white)	$283.2	-2.0
Tate and Lyle export price	£297.5	-2.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£166.5t	
Wheat (US Dark Northern)	£141.5t	
Rubber (Jul)♥	57.50p	-0.75
Rubber (Aug)♥	57.75p	-0.75
Rubber (KL RSS No 1 Jul)	209.5m	-0.5
Coconut oil (Philippines)§	$427.5v	-5.0
Palm Oil (Malaysian)§	$352.5y	
Copra (Philippines)§	$279.0	
Soyabeans (US)	£174.0u	
Cotton "A" index	58.45c	+0.10
Wooltops (64s Super)	357p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Sep. z-Aug.v-Jul/Aug u-Jul t-Jun ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX ($ per tonne)			
White	Close	Previous	High/Low
Aug	285.00	284.40	286.50 284.00
Oct	280.50	280.00	281.00 279.00
Dec	281.00	280.40	[illegible]
Mar	284.80	283.50	284.90 284.00

White 935 (1147) Paris- White (FFr per tonne): Aug 1576.48 Oct 1561.68

CRUDE OIL – IPE $/barrel			
	Latest	Previous	High/Low
Jul	17.36	17.56	17.57 17.33
Aug	17.64	17.78	17.79 17.56
Sep	17.87	17.98	17.99 17.82
Oct	18.04	18.15	18.14 18.02
Nov	18.18	18.31	18.29 18.16
Dec	18.29	18.38	18.29
IPE Index	17.62	17.79	

Turnover 40611 (42151)

GAS OIL – IPE $/tonne			
	Close	Previous	High/Low
Jul	164.00	164.50	164.00 163.00
Aug	165.75	166.50	165.75 165.00
Sep	167.75	168.75	168.00 167.50
Oct	171.50	172.25	171.50 170.75
Nov	173.75	174.50	173.75 173.25
Dec	175.75	176.50	176.00 175.00
Jan	176.50	177.75	177.00 176.25
Feb	176.25	177.50	176.25 176.00

Turnover 10192 (11943) lots of 100 tonnes

JUTE
C and F Dundee: BTC $320, BWC n/a, BTD $295, BWD $235. C and F Antwerp: BTC $305, BWC $305, BTD $280, BWD $280.

COTTON
Liverpool-spot and shipment sales amounted to 22 tonnes for the week ended 11 June against 495 tonnes in the previous week. Subdued offtake did not bring many operations. Support was forthcoming in certain specialist styles notably in the CIS range.

COCOA – London FOX £/tonne			
	Close	Previous	High/Low
Jul	664	662	665 658
Sep	675	671	677 665
Dec	695	691	696 689
Mar	716	713	716 711
May	729	727	731 727
Jul	743	741	743 741
Sep	758	754	757
Dec	780		780
Mar	801	798	805 804

Turnover: 1874 (3197) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 14 669.43 (677.54) 10 day average for Jun 15 678.39 (680.79)

COFFEE – London FOX $/tonne			
	Close	Previous	High/Low
Jul	905	905	907 892
Sep	922	920	922 910
Nov	924	926	925 915
Jan	923	926	926 915

Turnover: 2854 (1847) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 11 Comp. daily 54.12 (53.08) 15 day average 54.56 (54.76)

POTATOES – London FOX £/tonne			
	Close	Previous	High/Low
Apr	93.20	94.10	93.2 91.5
May	100.50	101.80	100.5 100.0

Turnover 67 (32) lots of 20 tonnes.

SOYABEAN MEAL – London FOX £/tonne			
	Close	Previous	High/Low
Aug	145.80	-	145.80

Turnover 0 (0) lots of 20 tonnes.

FREIGHT – London FOX $10/index point			
	Close	Previous	High/Low
Jun	1475	1463	1475 1458
Jul	1340	1340	[illegible]
Aug	1330	1335	1330 1325
Oct	1420	1420	1420 1405
Jan	1438		1440 1436
BFI	1599	1588	

Turnover 180 (87)

GRAINS – London FOX £/tonne			
Wheat	Close	Previous	High/Low
Jan	136.00	136.50	136.50 136.00
Sep	105.60		105.60
Nov	108.40	108.75	108.50 108.25
Jan	111.15	111.45	111.15 111.00
Mar	113.55	[illegible]	113.55 113.30
May	115.55		115.55 115.30
Barley	Close	Previous	High/Low
Sep	104.50		104.75
Nov	107.55	107.85	107.55
Jan	108.75		108.75 108.60
Mar	111.85	112.25	111.85
May	113.40		113.40

Turnover: Wheat 447 (97), Barley 114 (2).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg			
	Close	Previous	High/Low
Jun	115.90	115.90	116.0
Jul	107.80	109.00	108.0

Turnover:15 (9)lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)						
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 39,535 lots
Cash	1164.5-5.5	1146.5-7.5	1154	1154-4.5		
3 months	1179-8.5	1171-1.5	1181/1174	1178.5-9.0	1178.5-80.0	194,692 lots
Copper, Grade A (£ per tonne)						Total daily turnover 38,836 lots
Cash	1209.5-10.5	1210.5-1.5	1205	1204-5		
3 months	1219-20	1220.5-1.0	1221/1213	1212.5-3.5	1220-2	221,534 lots
Lead (£ per tonne)						Total daily turnover 3,439 lots
Cash	257.5-8.0	259-9	255	254-4.5		
3 months	267.5-8.0	269-9.25	268/264.75	264.5-4.75	267.5-8.0	20,659 lots
Nickel ($ per tonne)						Total daily turnover 11,497lots
Cash	5625-35	5490-5	5605	5605-7		
3 months	5585-95	5655-60	5595/5540	5570-2	5590-600	50,777 lots
Tin ($ per tonne)						Total daily turnover 3,295 lots
Cash	5030-40	5100-5		5045-50		
3 months	5090-100	5160-5	5140/5075	5105-10	5065-70	10,011 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 17,694 lots
Cash	917-8	913.5-4.5	917.5-917	917-7.5		
3 months	935-6	932.5-3.0	940/935	935.5-6.0	935-6	69,311 lots

LME Closing £/$ rate:
SPOT: 1.5225 3 months: 1.5125 6 months: 1.5046 9 months: 1.4985

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	365.50-366.00	
Opening	365.50-366.00	
Morning fix	365.00	238.207
Afternoon fix	365.35	239.574
Day's high	366.10-366.50	
Day's low	363.80-364.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.40	6 months	2.46
2 months	2.40	12 months	2.51
3 months	2.40		

Silver fix	p/troy oz	US cts equiv
Spot	276.05	422.50
3 months	279.95	426.70
6 months	283.90	429.40
12 months	291.35	436.85

GOLD COINS	$ price	£ equivalent
Krugerrand	365.5-368.500	238.00-240.00
Maple leaf	376.45-378.85	
New Sovereign	87.00-89.00	56.00-58.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Aug	Oct	Aug	Oct
1150	43	65	19	28
1175	29	51	31	37
1200	19	39	46	50
Copper (Grade A)	Calls		Puts	
1800	90	115	46	71
1850	64	91	70	95
1900	44	70	99	124
Coffee	Jul	Sep	Jul	Sep
800	105	127	-	5
850	55	86	-	14
900	10	53	5	31
Cocoa	Jul	Sep	Jul	Sep
625	39	57	-	7
650	14	39	-	18
675	1	25	12	26
Brent Crude	Aug	Dec	Aug	Dec
1650	7	-	65	-
1700	3	-	130	-
1750	1	22	-	-

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Jun	368.6	365.3	368.8	364.8
Jul	370.0	365.8	366.5	366.5
Aug	370.8	366.6	371.3	364.7
Oct	372.4	368.2	372.3	366.3
Dec	374.0	369.7	374.7	367.7
Feb	375.6	371.2	372.5	371.0
Apr	377.2	372.8	373.5	371.0
Jun	378.8	374.4	376.0	374.9
Aug	380.5	376.1	376.5	374.4

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	380.7	379.5	381.0	376.0
Oct	379.9	378.5	380.5	374.0
Jan	380.7	379.0	378.0	378.0
Apr	381.2	379.5	378.5	379.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Jun	428.2	421.2	423.0	423.0
Jul	428.6	421.8	430.0	418.5
Aug	430.4	423.4	421.0	431.0
Sep	431.9	424.8	433.0	421.0
Dec	436.5	429.4	438.0	426.5
Jan	437.1	430.0	0	0
Mar	440.9	433.8	442.0	432.0
May	444.3	437.2	438.0	438.0
Jul	447.3	440.2	444.5	442.0
Sep	450.7	443.6	448.0	446.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	82.30	82.50	83.10	82.30
Jul	82.55	82.70	82.80	82.15
Aug	82.80	82.85	0	0
Sep	83.00	83.00	83.20	82.60
Oct	83.15	83.10	0	0
Nov	83.30	83.20	0	0
Dec	83.40	83.35	83.60	83.00
Jan	83.55	83.50	0	0
Feb	83.65	83.60	83.60	83.60
Mar	83.80	83.75	83.95	83.95

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jul	18.74	18.88	18.73	18.60
Aug	19.09	19.26	19.13	19.00
Sep	19.37	19.50	19.43	19.30
Oct	19.61	19.63	19.53	19.48
Nov	19.64	19.72	19.70	19.58
Dec	19.73	19.79	19.75	19.65
Jan	19.81	19.86	19.81	19.78
Feb	19.86	19.89	19.81	19.81
Mar	19.85	19.91	19.86	19.85
Apr	19.92	19.92	0	0

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jul	52.30	52.45	52.35	51.80
Aug	53.00	53.10	53.00	52.60
Sep	54.05	54.30	54.10	53.80
Oct	55.05	55.35	55.20	55.02
Nov	56.20	56.35	56.25	56.10
Dec	57.20	57.35	57.25	57.10
Jan	57.75	57.95	57.80	57.75
Feb	57.75	57.90	57.80	57.75
Mar	56.75	56.80	57.00	56.75
Apr	55.65	55.60	55.65	55.65

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Jul	854	850	860	850
Sep	888	885	895	884
Dec	928	925	935	923
Mar	972	967	978	967
May	995	991	998	994
Jul	1017	1013	1018	1018
Sep	1041	1036	1039	1038
Dec	1072	1066	0	0
Mar	1109	1103	1104	1103

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	61.30	58.75	61.40	57.75
Sep	63.20	60.85	63.25	59.80
Dec	66.00	63.45	66.00	62.70
Mar	68.30	65.95	68.00	65.30
May	70.00	67.40	0	0
Jul	71.60	69.15	0	0
Sep	73.15	70.50	69.45	69.45

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	10.80	10.90	10.88	10.78
Oct	11.17	11.19	11.24	11.12
Mar	10.93	10.93	10.97	10.89
May	10.80	10.82	10.85	10.80
Jul	10.66	10.66	10.70	10.66
Oct	10.52	10.52	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Jul	59.35	59.12	59.49	58.85
Oct	58.25	58.55	58.65	58.05
Dec	58.05	58.17	58.30	57.70
Mar	59.05	59.25	59.27	58.80
May	59.73	59.88	59.85	59.50
Jul	60.30	60.40	0	0
Oct	60.15	60.15	0	0
Dec	60.25	0	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	107.40	104.55	108.90	105.75
Sep	110.65	107.75	112.00	108.75
Nov	113.25	110.60	114.75	111.60
Jan	115.25	112.40	116.00	113.50
Mar	117.00	114.00	117.25	114.50
May	118.00	115.00	0	0
Jul	118.00	115.00	0	0
Sep	118.00	115.00	0	0
Nov	118.00	115.00	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)			
Jun.15	Jun.14	mnth ago	yr ago
1850.2	1846.9	1876.3	1595.1

DOW JONES (Base: Dec. 31 1974 = 100)				
	Jun.14	Jun.11	mnth ago	yr ago
Spot	120.57	119.89	119.92	118.60
Futures	121.11	120.03	121.82	119.05

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jul	582/6	584/4	588/0	580/4
Aug	580/4	582/2	586/4	579/6
Sep	577/0	580/6	584/0	576/0
Nov	577/0	581/0	584/4	576/4
Jan	585/0	588/6	590/4	582/4
Mar	590/6	594/4	597/0	590/4
May	594/4	598/4	600/0	594/0
Jul	598/2	599/0	601/4	596/0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	20.18	20.46	20.60	20.17
Aug	20.38	20.58	20.72	20.38
Sep	20.50	20.69	20.83	20.47
Oct	20.54	20.81	20.92	20.59
Dec	20.82	21.04	21.18	20.80
Jan	20.92	21.15	21.25	20.92
Mar	21.16	21.26	21.45	21.15
May	21.35	21.53	21.60	21.35

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Jul	186.1	186.4	187.0	185.6
Aug	185.3	185.7	186.4	185.1
Sep	184.8	185.3	186.1	184.7
Oct	184.8	185.1	185.8	184.6
Dec	185.1	185.8	186.4	184.9
Jan	186.2	185.7	186.1	186.0
Mar	185.8	186.0	186.7	185.5
May	186.9	187.2	187.6	186.5

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Jul	212/6	214/4	215/4	212/4
Sep	218/6	220/0	221/2	218/4
Dec	226/4	227/0	228/6	226/0
Mar	234/6	234/8	236/6	234/0
May	239/4	239/6	241/4	239/2
Jul	243/2	243/2	244/6	243/2
Sep	241/4	241/0	242/4	241/2
Dec	241/6	240/2	242/4	240/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Jul	281/0	285/6	287/0	280/2
Sep	284/4	289/4	290/4	284/0
Dec	296/0	300/0	301/0	295/2
Mar	301/6	306/0	306/4	301/0
May	300/4	304/4	305/0	300/0
Jul	301/4	304/2	304/4	301/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	76.850	77.900	77.900	76.800
Aug	74.875	75.900	75.475	74.650
Oct	75.225	75.700	75.675	75.150
Dec	75.125	75.575	75.625	75.075
Feb	74.800	75.225	75.225	74.800
Apr	75.800	76.350	76.250	75.800
Jun	72.750	73.400	73.500	72.625

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	51.250	51.225	51.500	50.650
Jul	47.925	48.550	48.450	47.700
Aug	45.650	46.275	46.250	45.325
Oct	40.200	40.800	41.000	40.025
Dec	40.350	41.125	41.200	40.075
Feb	40.200	41.050	41.100	40.200
Apr	39.575	40.200	40.900	39.575
Jun	45.275	45.900	45.900	45.275

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	33.325	34.250	34.200	32.900
Aug	32.925	33.600	33.650	32.400
Feb	39.375	39.625	39.800	39.325
Mar	39.025	39.025	0	0
May	40.700	40.700	0	0
Jul	41.300	41.300	0	0

LONDON STOCK EXCHANGE

Shares wilt as rate cut hopes fade

By Steve Thompson

THE RECENT bout of strength in the UK equity market, which has seen the FT-SE 100 Index bump up against the top of its trading range, the 2,900 mark, evaporated yesterday as dealers decided that share prices have been "overcooked" and that the scope for a further reduction in interest rates had diminished.

Another substantial cash call, in the form of a £220m-plus rights issue from MEPC, the property group, was a further depressant on the market, as was a disappointing opening performance by Wall Street.

The more cautious view adopted by the market was further encouraged by remarks made by Mr Kenneth Clark, chancellor of the exchequer. His comments were read as indicating a determination to keep the lid on inflation.

Dealers signed off at the end of what was described as an uninspiring session seeking, but not generally expecting, encouragement on the direction of economic policy from Mr Clark, who delivered his first speech as chancellor at London's Mansion House yesterday.

Stock prices settled around the day's lowest levels yesterday, although traders said activity continued to contract from recent levels.

The equity market kicked off on a quiet note, with market-makers opening prices around their overnight levels, encouraged by a good showing by Wall Street, and in spite of early news of MEPC's rights issue, the latest in a long line of cash calls from a property sector boosted by hopes of an early upturn and the recent intervention in the sector by Mr George Soros, the US investment specialist.

What little early support was in evidence quickly evaporated in mid-morning as a deterioration in the Footsie future took the ground from underneath the cash market.

The day's substantial batch of economic numbers, on industrial output and the Confederation of British Industry survey of distributive trades, provided little incentive for a market seeking direction from the chancellor's Mansion House speech and awaiting the crucial May inflation numbers.

"It now seems that there is very little likelihood of a rate cut this week unless the inflation figures are very, very good indeed, and by that I mean no increase on the annual rate of inflation," was the view of one City economist.

Having started the session no more than a point easier, and enjoying a brief move into positive territory during the first hour or so of trading, the FT-SE 100 moved progressively lower, reaching the day's nadir of 2,869.7 as Wall Street opened.

The US market performed disappointingly, especially after what was viewed as a satisfactory May inflation figure. "The CPI number means no short term rise in US interest rates," was the emphatic view from a London trader in international stocks.

Share prices showed no inclination to rally towards the close, however, and the FT-SE 100 finished a net 15.5 down at 2,870.0. And the market's overall disenchantment with the ever-diminishing rate cut story upset the highly resilient FT-SE Mid 250 Index, which retreated from its all-time high to end 8.1 off at 3,205.1.

Turnover in the market was a disappointing 512.3m shares, only marginally above Monday's 500.1m, which was worth a fraction above £1bn in customer business.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group†	4,200	71	+½
Abbey National†	2,000	413	-5
Albert Fisher	699	65	-1
Allied-Lyons†	2,800	539	-6
Anglian Water†	1,200	470	+10
Argos	699	309	-3
Argyll Group†	2,100	343	-1
Arjo Wiggins†	2,000	181	-1
Ass. Brit. Foods†	499	467	-1
Ass. Brit. Ports	270	428	
BAA†	1,500	734	
BAT Inds.†	6,200	425	-6
BET	10,000	109	-2
BICC	863	391	-2
BOC†	940	681	+6
BP†	8,200	307½	-2½
BPB Inds.	605	230	[illegible]
BT†	4,800	421½	-3
BTR†	3,700	354	-4
Bank of Scotland†	724	149	
Barclays†	2,000	464½	-½
Bass†	1,700	475	-3
Blue Circle†	1,100	259	-3
Booker	450	398	
Boots†	1,700	495	
Bowater†	1,300	495	-5
Brit. Aerospace	2,500	393	-7
British Airways†	846	294	
British Gas†	9,400	295	-1
British Land	5,300	303	-8
British Steel†	4,200	104	+½
Bunzl	266	137	
Burmah Castrol†	1,300	694	-3
Burton	5,200	65	+1
Cable & Wire.†	1,300	734	-15
Cadbury Schweppes†	1,700	463	-2
Calor Group	72	243	-1
Carlton Comms.†	340	769	-6
Coats Viyella†	1,600	230	+4
Comm. Union†	509	589	-8
Cookson	1,500	210	+6
Courtaulds†	1,300	556	-1
Dalgety	509	456	+6
De La Rue†	598	862	-1
Dixons	255	215	
Eastern Elect.	482	470	+3
East Midland Elect.	830	458	+2
Eng China Clays	1,200	430	+3
Enterprise Oil†	725	465	-9
Eurotunnel Units	63	422	
FKI	2,900	138	-3½
Fisons†	6,500	168	+6½
Foreign & Col. I.T.	585	229	-1
Forte†	4,400	215	-1½
Gen. Accident†	695	579	-4
General Elect.†	7,800	335	-5
Glaxo†	3,200	598	-3
Glynwed Int.	358	292	+6
Granada†	2,800	409	+1
Grand Met.†	1,800	413	-6
GUS A†	247	1690	
GRE†	1,800	178	-3
GKN	1,600	481	-5
Guinness†	1,500	485	-8
HSBC (75p shs)†	2,700	650	
Hammerson 'A'	323	394	-4
Hanson†	7,300	228½	+1¼
Hanson Warrants	184	22¼	-¼
Harrisons Crosfield	165	178	-1
Hillsdown	5,100	142	-3
IMI	341	298	+2
ICI†	5,700	705	-1
Inchcape†	872	586	-1
Johnson Matthey	78	454	-3
Kingfisher†	1,700	594	-2
Kwik Save†	60	728	-4
Ladbroke†	9,600	171½	-6½
Land Securities†	803	590	
Laporte	470	635	-8
Legal & General†	481	460	-6
Lloyds Abbey	940	435	+2
Lloyds Bank†	1,700	570	-4
LASMO†	870	167	-3
London Elect.	294	461	-4
Lonrho	4,400	105	-6
Lucas	480	157	
MB Caradon†	1,200	280	
MEPC	6,000	414	-8
MFI	2,500	133	-2
Manweb	587	522	
Marks & Spencer†	4,600	338	-5
Midlands Elect.	734	482	+4
Morrison (Wm.)	5,900	155	
NFC†	339	257	-2
NatWest Bank†	3,000	474	-1
National Power†	1,800	364	-2
Next	3,700	163½	+2½
North West Water†	1,700	462	+9
[illegible]	[illegible]	[illegible]	[illegible]
Ryl Bk Scotland†	1,200	288	-2
Royal Insurance†	865	283	-5
Saatchi	703	165	+1
Sainsbury†	730	484	-2
Scottish & New.†	348	480	-3
Scot. Hydro-Elec.†	894	387	-3
Scottish Power†	1,200	317	-3
Sears†	2,700	99	
Sedgwick	4,400	189	-1
Seaboard	541	619	+1
Severn Trent Water†	2,400	487	+8
Shell Transport†	1,400	694	-1
Siebe†	619	484	-6
Slough Ests.	1,700	203	-4
Smith (W.H.) A	288	435	
Smith & Nephew†	479	141½	
SmKl Beecham†	2,400	432½	+2½
SmKl Beecham Uts.†	1,200	394	+3
Smiths Inds.	171	357	-3
Southern Elect.†	842	465	+1
South Wales Elect.	35	547	+2
South West Water	1,100	485	-1
South West. Elect.	216	490	+3
Southern Water	369	505	+2
[illegible]	[illegible]	[illegible]	[illegible]
Vodafone†	1,900	444	+3
Warburg (SG)	49	725	+1
Wellcome†	700	721	-3
Welsh Water	439	573	+17
Wessex Water	1,000	570	+12
Whitbread 'A'†	497	487	
Williams Hldgs.†	1,800	302	-½
Willis Corroon	369	209	-1
Wimpey	1,000	171	-4
Wolseley	275	623	-7
Yorkshire Elect.	223	513	+1
Yorkshire Water	1,800	480	+6
Zeneca†	3,700	616	-1

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates		
*First Dealings:		
Jun 7	Jun 21	Jul 5
Option Declarations:		
Jun 17	Jul 1	Jul 15
Last Dealings:		
Jun 18	Jul 2	Jul 16
Account Day:		
Jun 28	Jul 12	Jul 26

*New time dealings may take place from 8.30am two business days earlier.

Cash call upsets MEPC

THE latest in the property sector's tide of rights issues – a call for £221m from MEPC – took the shine off the sector, with the shares sliding in line with MEPC's, which fell 8 to 414p in a volume of 5.9m.

The company's one-for-five at 350p rights move was largely greeted with apathy by a sector which has now seen six major cash calls in three months. Mr Alan Carter at James Capel said: "We have come so far so fast and I think we are seeing a bit of tiredness setting in now. It is the last of the big rights issues and had been expected."

Cash calls in property since March include Great Portland Estates (£95m); British Land (£132m); Hammerson (£199m); Brixton Estates (£100.7m) and Slough Estates (£147.3m).

MEPC's rights issue, which one analyst calculated will knock down the company's gearing from about 85 per cent to 70 per cent, is likely to make MEPC a prime candidate for inclusion in the FT-SE 100 when the index is reviewed in September.

A debt issue has not been ruled out by the company.

Continued profit-taking in the sector also contributed to a downbeat climate which saw British Land give up 8 to 303p.

Among other property sector leaders, Brixton Estates lost 6 to 195p and Great Portland retreated 4 to 177p.

Waters wanted

The recently underperforming water sector staged a strong recovery as a number of the market's big action funds began to switch out of some of the generators and regional electricity stocks and into the waters. There was also a widespread view among sector specialists that the utilities' strong defensive qualities and the prospect of above average dividend increases in the next few years would provide strong underlying support for the stocks.

The water issues in the FT-SE 100 Index were the brightest performers, with North West Water following Monday's rise of 16 with a further gain of 9 to 462p. Anglian moved ahead 10 to 470p, Severn Trent 8 to 487p and Thames 3 to 471p.

Wessex Water's preliminary figures were at the top end of expectations, dealers said, triggering an advance of 12 in the stock to 570p. Welsh Water raced up 17 to 573p.

Manweb, the second of the "recs" to produce preliminary numbers, touched 526p before slipping back to finish unchanged at 522p. The company topped East Midland's 14 per cent dividend, increasing its payment by 15 per cent.

Royal Ins placing

Shares in Royal Insurance declined 5 to 283p after the rump of the recent rights issue was placed by S.G. Warburg and Hoare Govett.

With an 87.2 per cent take-up of the issue reported, the outstanding 20.7m shares were successfully placed with institutions at 281p. The impact of the placing, along with general profit-taking, caused a retreat in the rest of the sector. General Accident eased 4 to 579p, Commercial Union lost 8 to 589p, Sun Alliance closed 4 lighter at 357p and Legal & General relinquished 6 to 460p.

Banking group Standard Chartered was the strong feature in banks after a recommendation from S.G. Warburg sent the shares 15 ahead to 769p. Trading was, however, thin.

The recommendation came after Monday's meeting with several analysts and helped boost the stock that has underperformed the rest of the sector in recent weeks. The rest of the banking sector traded easier with the market. Lloyds fell 4 to 570p.

Another decline in crude oil prices continued to unsettle an oil sector already weakened by the uneasy peace agreed at last week's Opec meeting in Geneva. BP attracted a fresh wave of US sellers and settled 2½ off at 307½p on turnover of 6.1m shares. Shell, despite the encouraging noises from Monday's investment presentation, eased to 624p. Enterprise Oil dropped 9 more to 465p.

There was more downside pressure exerted on Zeneca where the £1.3bn rights issue closes next Monday. But dealers continue to take the view that the issue is safe; "it's a question of holding your nerve and waiting for the reward," was the view of one market optimist." Zeneca "old stock settled 1½ off at 615½p on turnover of 3.7m and the "new" nil-paids eased a penny to 16p with a hefty 8.2m shares traded. ICI, where the recent US buying support has dried up, eased 2 to 705p.

Fisons extended its recent strong showing, the shares moving up strongly to close a further 6½ ahead at 168p on heavy turnover of 5.5m.

Guinness shares ended the day 8 lighter at 485p as the acceptance was announced of a management buy-out at the South Wales based Crown Brewery. Volume was modest at 1.6m. Elsewhere other large brewers suffered knocks with Bass losing 3 to 475p; Allied Lyons giving up 6 to 539p and Grand Metropolitan losing 6 to close at 413p.

Increased talk of takeovers stalked broadcasting shares, moving Anglia Television up 12 to 329p; Central Independent ahead 7 to 1925p and Scottish Television up 3 to 486p.

Reaction to its AGM statement pushed down Ladbroke to 6½ to 171½p in an average turnover of 8m. One analyst said that the statement was "a shade disappointing" although didn't see any deep-rooted problems with the leisure group while another maintained that the shares had been overpriced and were now beginning to find their level.

Ladbroke is a large player in the DIY aggressive pricing battle and its statement revealed that its Texas Homecare chain had fallen short of trade hopes so far this year.

Airtours pushed up 2 to 325p while Thorn EMI fell back 7 to 880p. David Lloyd Leisure, which was floated in March in an issue that was seven times oversubscribed, was bouyed by good results to move up 13 to 191p.

After the High Court's refusal to sanction Terry Venables' reinstatement as chief executive of Tottenham Hotspur the share price fell back another penny to 87p. It marks a slide of 7 in the stock, which is USM listed, since the boardroom battle between Venables and Alan Sugar resumed at the court last week.

Confirmation by Coats Viyella that it has increased its holding in its Indian subsidiary from 39.9 per cent to 51 per cent pushed up its share price 5 to 231p in a volume of 1.6m. The Indian Government granted permission for the stake increase in the subsidiary which is renamed Coats Viyella India.

Courtaulds followed the market down to close 3 lighter at 556p in a volume of 1.3m.

Among engineers and aerospace, continued profit-taking left British Aerospace 7 lighter at 393p. Smiths Industries shed 3 to 357p following the completion of a big buying order on Monday. Vickers put on 4 to 140p powered by a recommendation from SG Warburg. The 84 per cent jump in profits at FKI had already been discounted by the market following the stock's strong performance for most of this year. The shares eased 3½ to 138p.

A talk-to-the-investors session and positive comments from NatWest Securities enabled Unilever to push up 4 to 1048p with 2.6m shares traded. Share price buoyancy of the company, which is optimistic over its growth in East Asia, followed a strong showing on the previous day which had been triggered by a similar presentation in Amsterdam last friday.

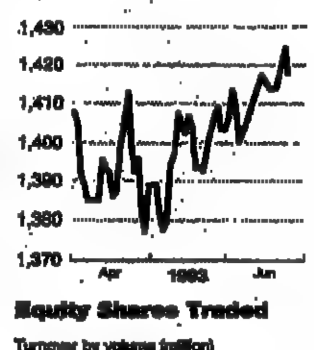
Other gainers in food included Dalgety which moved up 6 to 456p albeit in thin trading; United Biscuits which put on 2 to 391p and Unigate which added 2 to 452p. One food analyst said investors were making tentative moves back to the sector. But the picture was patchy – Cadbury-Schweppes slid 2 to 463p in a volume of 1.5m; Tate and Lyle also moved down 2 to 384p; Sainsbury lost 2 to 484p in a small volume and Tesco also gave up 2 to end at 217p.

Volex was one of the best performers in the electricals/electronics areas of the market, the shares racing up 18 to 405p after the doubled profits. News that Quality Software, recently launched on the market, had won its first order for its Universal Olas systems, triggered a surge of buying interest in the company's shares, which closed 32 higher at 558p.

MARKET REPORTERS:
Steve Thompson,
Joel Kibazo,
Christine Buckley.

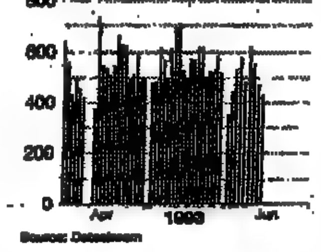
■ Other statistics, Page 20

FT-A All-Share index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business and overseas turnover



Source: Datastream

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (123). [illegible]

Do 5pc Cv Ln.

NEW LOWS (22).

BRITISH FUNDS (2) Treas. 12½pc '93, Treas. 8½pc '94, BUSINESS SERVS (2) Holmes Protection, Pauna, CONGLOMERATES (2) Bibby, Hanson, ELECTRONICS (1) Pacer Systems, FOOD MANUF (1) Sims, FOOD RETAILING (1) Low, HEALTH & HSEHOLD (2) Brit. Bio-Technology, Joyes, INSCE COMPOSITE (1) Hibernian, INV TRUSTS (2) Kleinwort Dev. Fd., Scot. Natl., MEDIA (1) Brkdale, MISC (1) Hornby, OIL & GAS (2) Ex. Co Louisiana, Oliver Res., PACKG, PAPER & PRNTG (1) Smurfit, PROP (1) Waterglade, TRANSPORT (1) CSX, MINES (1) MIM.

FINANCIAL TIMES EQUITY INDICES

	June 15	June 14	June 11	June 10	June 9	Year ago	* High	* Low
Ordinary share	2250.3	2262.9	2244.0	2238.5	2240.5	2037.0	2298.5	2124.7
Ord. div. yield	4.12	4.16	4.12	4.13	4.15	4.54	4.62	4.07
Earning yld % full	4.87	4.93	4.83	4.84	5.25	6.65	6.38	4.83
P/E ratio net	26.29	25.92	26.65	26.47	24.01	18.83	26.55	19.40
P/E ratio nil	24.46	23.95	24.51	24.43	22.40	17.48	24.51	18.14
Gold Mines	169.8	170.3	179.6	176.6	175.8	105.3	202.7	80.0

*for 1993. Ordinary share index since compilation: high 2298.5 10/3/93 - low 49.4 26/6/40
Gold Mines index since compilation high: 734.7 15/2/83- low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2262.2	2260.2	2259.4	2255.2	2256.3	2256.6	2256.3	2257.1	2252.8	2264.2	2250.1

Volume	June 15	June 14	June 11	June 10	June 9	Year ago
SEAQ Bargains	27,736	29,297	25,481	26,870	28,043	21,353
Equity Turnover(£m)†	-	1000.3	1173.4	1353.9	1464.4	809.1
Equity Bargains†	-	32,888	29,736	30,946	32,414	24,465
Shares traded (mil)†	-	432.5	481.8	556.7	613.4	349.6

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p at all other times.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2870.0 -15.5	3205.1 -8.1	1418.10 -6.40

	Jun 15	Day's change %	Jun 14	Jun 11	Jun 10	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2870.0	-0.5	2885.5	2881.8	2880.0	2616.3	6.02	4.01	20.67	48.39
FT-SE Mid 250	3205.1	-0.3	3213.2	3202.9	3207.7	2846.9	6.55	3.65	19.31	41.89
FT-SE-A 350	1432.0	-0.5	1438.8	1428.8	1428.4	1278.0	6.14	3.93	20.35	22.91
FT-SE SmallCap	1636.84	-0.1	1638.70	1634.14	1634.91	-	4.31	3.45	32.65	21.65
FT-SE SmallCap ex Inv Trusts	1644.35	-0.1	1646.40	1642.48	1643.77	-	4.76	3.66	30.47	22.72
FT-A ALL-SHARE	1418.10	-0.4	1424.50	1414.77	1414.64	1263.20	6.03	3.90	20.82	22.44
1 CAPITAL GOODS(213)	1004.79	-0.7	1011.89	1008.00	1005.57	861.64	4.41	3.94	30.18	16.56
2 Building Materials(27)	1087.88	-0.7	1095.49	1087.85	1091.86	971.03	3.52	4.33	40.91	18.38
3 Contracting, Construction(29)	952.42	-0.9	961.32	964.28	973.89	887.82	1.46	3.44	80.00†	13.43
4 Electricals(15)	2980.01	-0.2	2987.15	2986.25	2953.90	2559.73	4.91	4.52	25.91	65.13
5 Electronics(37)	2785.20	-1.0	2812.33	2793.70	2768.52	2002.72	5.78	2.98	21.69	20.43
6 Engineering-Aerospace(7)	414.97	-1.1	419.51	424.67	427.58	370.86	‡	3.56	‡	5.23
7 Engineering-General(51)	573.02	-0.4	575.10	572.38	569.41	542.81	6.30	3.68	19.51	8.32
8 Metals & Metal Forming(11)	430.96	+0.5	428.89	428.97	427.61	342.49	3.60	2.87	41.86	2.36
9 Motors(16)	409.73	-0.8	413.09	410.73	410.96	363.96	4.61	5.38	30.48	9.59
10 Other Industrials(18)	2070.13	-0.8	2086.52	2078.33	2067.74	1807.76	5.52	4.33	21.80	48.40
21 CONSUMER GROUP(235)	1636.57	-0.4	1645.42	1635.23	1634.99	1678.40	7.41	3.55	16.47	24.07
22–99 [illegible]										

Hourly movements; FT-SE Actuaries 350 Industry Baskets; notes: [illegible]

LONDON SHARE SERVICE

BRITISH FUNDS; OTHER FIXED INTEREST: [illegible]

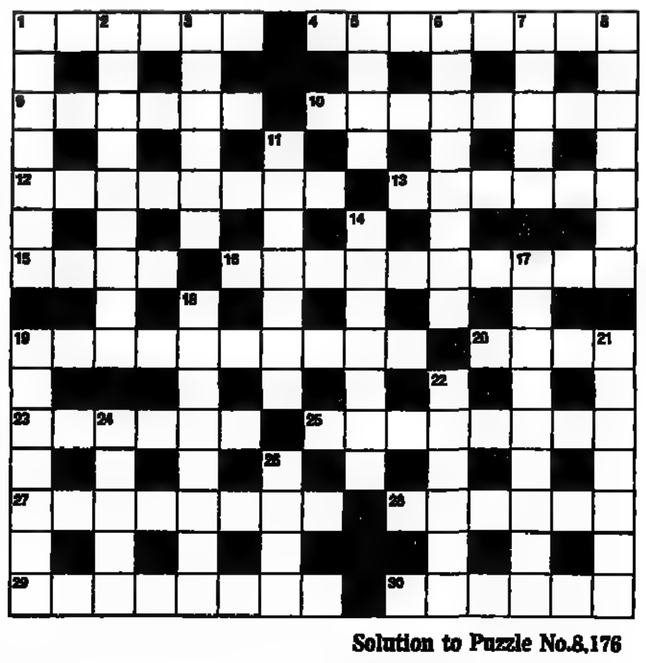
Continued on next page

CROSSWORD

No.8,177 Set by VIXEN

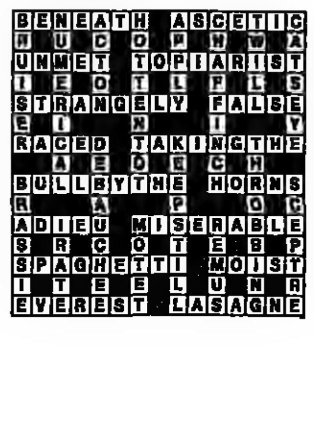
ACROSS
1 Draw back from heartless fool in church (6)
4 A social worker puts up with such beasts (3-5)
9 Recruit given directions by heel (6)
10 Taking a reading is a bloomer! (8)
12 Town wear (8)
13 The aim of campers? (6)
15 Study having to do with modern times (4)
16 Better change this grater! (10)
19 He expects hard work to demand a lot in the trier (10)
20 Pretty good entertainment (4)
23 Exercising some restraint, Ernest shut up (6)
25 A swimmer in pain and stiffening (8)
27 Fell back – got up when questioned (8)
28 A club where there's beastly food set (6)
29 They may well leave one cold game (8)
30 The person stopping the old-fashioned getting into the lead (6)

DOWN
1 A wool-gathering stripper (7)
2 Abuses till disconcerted over tears shed (3-6)
3 Many like a German cheese maker (6)
5 Domestic animals need a little medicine at times (4)
6 Jocularity older people find unacceptable? (8)
7 Inane make-up for a girl (5)
8 Bearing with a mad character causing smash (7)
11 European man holding up post (7)
14 The head's about to hire painter's equipment (7)
17 Drink alone – that's not to be taken seriously! (9)
18 To make a song about a vehicle reversing can be hurtful (8)
19 The very last thing one wanted in soldiers temporarily present (7)
21 Gun turned on a rebel leader as ordered (7)
22 Worrying Ulster issue (6)
24 Capital jewellery! (5)
26 They'll support certain measures (4)



JOTTER PAD

Solution to Puzzle No.8,176



EQUITY FUTURES AND OPTIONS TRADING

STOCK INDEX futures gave up most of Monday's gains as hopes of a cut in interest rates faded, writes Joel Kibazo.

The first trade in the June contract on the FT-SE 100 was struck at 2,895, Monday's closing level, and pointed towards another strong session.

However, a feeling that cuts in interest rates were unlikely this week led to selling of the contract. It fell further as independent traders (also known as locals) went on the offer, and a poor gilts sector, which had helped to underpin Monday's rise, also played its part in increasing the downward spiral.

The release of better than expected industrial and manufacturing production figures had no significant effect on trading. In the afternoon it was a poor Wall Street opening that brought a further retreat in the June contract and the day's low of 2,872 was seen at 3.30pm.

June closed at 2,878, an 8-point premium to the underlying cash market. Volume in the June future was 9,864 lots, while 4,508 were dealt in the September contract.

Business in the traded options remained uneventful, with volume only slightly improving to 25,510 contracts. Some 9,006 were dealt in the FT-SE 100 option, which sees its June expiry today. The Euro FT-SE option was also active and recorded a total of 2,689 trades. In the stock options, TSB led the way with a total of 1,219 lots.

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or –	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs	17¾xd	+⅛	20¼	15½	14,384	2.5
Allegheny & W ♥	561p	–	617p	399p	391.9	3.2
Amdahl	391p	–7	591p	302½p	405.4	0.6
Amer Cyanamid	34½	–	39⅝	31¼	3,110	3.0
Amer Express	19¼xd	–⅜	19½	14⅞	9,293	3.3
Amer T & T	41¼xd	+½	41⅛	33⅛	64,691	2.0
AmeriTech	50¼	+¼	52⅝	46	22,091	4.6
BankAmerica	28½xd	–⅛	33⅛	27⅛	9,938	3.1
Bankers NY	45⅞xd	+⅞	51⅛	42⅝	3,046	4.3
Bell Atlantic	36¼	–⅝	39¼	32¼	15,986	4.6
BellSouth	35⅞	+⅛	38⅝	32⅞	[illegible]	5.0
Bethlehem Steel ♥	11¼xd	–½	13¼	10	1,069	–
Bowater	1311pxd	–15	1662p	1283p	475.1	1.9
CPC	27¼xd	–⅛	34⅝	28	4,127	3.0
Cadiz Land Inc ♥	181p	+1	181p	53p	–	–
California Engy	1358p	–	1479p	1065p	247.2	–
Chase Manhattan	19⅞xd	+⅜	24½	17⅝	3,858	3.9
Chrysler	36¼xd	–⅜	36½	21¼	8,821	1.3
Citicorp	18¼xd	+⅛	20¼	13⅞	6,626	–
Colgate–Palm	35¼xd	+½	45⅝	35⅛	5,698	2.2
Cont'l Bank	1626p	+28	1677p	1278p	1,541	2.5
Dana	34⅞xd	–1⅛	35⅞	29⅜	1,884	3.0
Data General	646p	+2	901p	593p	178.8	–
Decora Inds ♥	139p	+2	149p	109p	–	–
Dun & Brad	37¼	–	42⅛	37⅛	6,726	4.1
Eaton	59½	+⅛	69⅛	50⅝	2,026	2.4
Echlin	17xd	–⅛	18⅝	15⅛	874.3	2.8
FPL	24⅞xd	–⅛	27⅝	23⅛	4,417	6.4
Ford Motor	33⅞xd	–1¼	38½	25⅞	16,588	1.9
Gen Elect	60⅝xd	–1	62⅞	53⅝	51,776	2.6
General Host ♥	599p	–7	723p	565p	–	4.0
Gillette	31¼xd	–⅛	42⅛	31½	6,977	1.7
Hasbro	20⅞	–	26⅞	20⅞	1,819	0.7
Honeywell	23⅞xd	–⅛	24⅛	20⅛	3,169	2.4
Houston Inds	28⅞	–	33¼	28¼	3,739	6.5
Ingersoll–Rand	22¼xd	+⅞	25	19⅞	2,324	2.0
Lockheed	40½	–⅛	42⅞	35⅛	2,488	3.3
Loew's	2418p	+135	2483p	1573p	1,784	0.7

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

Net asset values supplied by Hoare Govett Securities Limited as a guide only. See guide to London Share Service.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

	Notes	Price	+or-	1993 high	low	Mkt Cap£m	Yld Gr's
Greenwich Res	‡☐	18	-¼	22¼	6	12.3	-
Hemlo Gold C$		55½	+½	55½	23½	582.2	1.7
Ivernia West IE	‡‡☐	45	-1	67	33	[illegible]	-
Kelly Minls IE	‡‡	12		13	6	0.38	-
Kenmare	☐	[illegible]	-¼	13½	6	9.76	-
Mallage Res		16		25½	13½	1.77	-
Maven Res IE		72	+3	78	25	12.2	-
5pc Ln Notes		72	+3	72	[illegible]	13.0	-
Oryx Gold		74		74	47	-	-
‡‡Ovoca Res IE		3½		3½	3½	0.24	-
RTZ	☐	682xd	-6	708	607	6,736	4.0
Vizcaya		5¼		8¼	2¼	3.08	-

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. *Dividends and Dividend covers are published on Monday.*

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◊ Figures or report awaited
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ◆ Merger bid or reorganisation in progress
- \$ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT
z Dividend yield includes a special payment.
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1993.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1236 a year for each security shown, subject to the Editor's discretion

FT Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring +44 81-643 7181 (open 24 hours including weekends) or fax +44 81-770 0544, quoting the code FT3373. Reports will be sent the next working day, subject to availability. Please remember to state the weekly changing code above.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

OTHER UK UNIT

هكذا من الأجل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

[illegible]

INSURANCES

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Provident Life Assoc Ltd

Provident Mutual Life Assoc. Assn.

Prudential Assurance Co

Prudential Corporate Pension Funds

Prudential Individual Life Funds

Prudential Individual Pension Funds

Reliance Mutual

J Rothschild Assurance PLC

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Tunbridge Wells Equitable

Windsor Life Assur Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey 0534 70009						
Prudential Currency Fd (Formerly Vanbrugh Currency Fd)						
Income (A & B)	5	209.6	209.6	220.0	-0.3	3.2
Growth (C & D)	5	315.7	315.7	331.3	-0.5	5
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Govt Secs Fd	4	65.48	65.48	67.77	+0.01	7.82
Standard Bank Fund Mngmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67507						
International Bond	5		$- 16.13	17.07	+0.02	4.51
Sterling Bond	3		£- 9.71778	10.05	-0.09	6.57
Sterling Cap			£- 42.61	42.53	+0.01	5.41
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	102.31	102.31	105.38	+0.02	5.00
Gilt & Fixed Interest	3	117.95	117.95	122.32	-0.05	7.57
Blue Chip & Gilt Edged	5	60.70	60.70	63.90	+0.01	3.57
International Bond	5	135.09	135.09	142.05	-0.09	4.99
UK Equity	5	254.58	263.33	277.18	+0.04	1.25
International Equity	5	177.44	180.05	189.53	-0.72	0.38
Far Eastern	5	165.61	168.92	177.81	-1.22	0.00
European	5	126.04	126.72	133.39	-0.47	0.00
Pan American	5	344.29	348.01	366.35	+1.29	0.00
TSB Gilt Fund Ltd						
Quarterly Share	3	106.30	106.30	109.77	+0.14	7.85
Monthly Share	3	104.20	104.20	107.60	+0.14	7.81

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$8.952	9.434	+0.026	0.0
Hong Kong	$21.441	23.056	+0.175	0.4
Indonesia	$10.386	10.885	+0.169	0.0
Korea	$11.511	12.221	-0.297	0.0
Malaysia	$19.783	20.824	-0.217	0.0
Philippines	$16.854	17.741	-0.052	0.0
Singapore	$12.088	13.758	-0.224	0.8
Thailand	$20.147	21.207	+0.063	0.0
South East Asia	$25.882	27.255	-0.123	0.0
US Dollar Liquidity	$9.584	10.042		

Banque Scandinave a Luxembourg SA

INVESCO International Limited - Contd.

BAII Intermarket Fund - Contd.

Nikko Bank (Luxembourg) S.A.

Chameleon Funds Limited

Haussmann Hldgs NV Curacao

Pacific Growth Fund

Pakistan Fund

Pequot International Fund Inc

Philippine Income Fund Inc

The China Fund

The India Magnum Fund NV

Indosuez Asia Invest Services Ltd

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Gaddum softens D-Mark

THE DOLLAR gained more than 2 pfennigs against the D-Mark yesterday after a Bundesbank council member hinted that there could be another cut in official German interest rates this week, *writes James Blitz*.

In recent weeks, Bundesbank officials have been hawkish about the prospect of more monetary easing in Germany, because of fears of inflation, the weakness of the D-Mark and the growing German money supply. Indeed, the last easing in German monetary policy came more than a month ago, when the repo rate was cut to 7.60 per cent.

Yesterday, Mr Johann Wilhelm Gaddum, the directorate member responsible for credit market operations, changed the mood, saying that a slowdown in the pace of German money supply expansion could give the Bundesbank room to lower interest rates.

This was seen by dealers as a strong indication that the M3 money supply figures might fall within the 4.5 per cent to 6.5 per cent target band set by the Bundesbank.

In the first four months of the year, M3 expanded at a seasonally adjusted and annualised 7.0 per cent.

In the European afternoon, the dollar rose sharply against the D-Mark on the back of these comments. Initially, the dollar had weakened below DM1.62 after the US consumer price inflation data for May showed a monthly rise of 0.1 per cent against market forecasts of 0.2 per cent.

This underlined expectations that the Federal Reserve would not lean towards tightening short term interest rates to curb inflation. But Mr Gaddum's comments reversed the trend: the dollar peaked at DM1.6413, and closed at DM1.6375, up more than a pfennig on the day.

The dollar's strength helped to reverse another strong performance by the yen in Tuesday's Asian trading.

The Japanese currency hit a post-war high of Y104.75 in Far Eastern trading. But this was seen as a strong technical resistance barrier, and the yen lost ground in the European morning, dropping as low as Y105.88.

There were strong rumours in London that the Bundesbank and other European central banks were intervening on behalf of the dollar. But these could not be confirmed, and it was far from clear that it was in the Bundesbank's interests to support the dollar at the current time.

European currency trading was thin, although the D-Mark showed some signs of weakness at the start of the European day, dropping to minus 17 percentage points against its divergence indicator.

Sterling rose most noticeably against the D-Mark, boosted by a Confederation of British Industry survey which showed that retailers were more optimistic about business prospects over the next three months than at any time since February 1987. The pound closed at DM2.4925 from a previous DM2.4800.

£ IN NEW YORK

June 15	Latest	Previous Close
£ Spot	1.5215-1.5225	1.5265 1.5275
1 month	0.36-0.35pm	0.35 0.34pm
3 months	1.01-0.98pm	[illegible]
12 months	3.15-3.05pm	3.13 3.05pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 15	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	192.854	188.266	[illegible]	4.26	67
Spanish Peseta	154.250	149.598	[illegible]	3.83	53
Irish Punt	0.808628	0.802062	-0.81	1.22	40
Dutch Guilder	2.19672	2.19347	-0.15	0.84	11
Belgian Franc	40.2123	40.2074	-0.01	0.71	4
D-Mark	1.94964	1.95580	0.31	0.39	-18
Danish Krone	7.43679	7.48231	0.61	0.09	-24
French Franc	6.53883	6.58426	[illegible]	0.00	-34

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100)

EURO-CURRENCY INTEREST RATES

[illegible]

OTHER CURRENCIES

Jun 15	£	$
Korea(Sth)	1214.50 - 1234.10	798.30 - 804.70
Kuwait	0.45800 - 0.45900	0.30030 - 0.30080
Luxembourg	51.15 - 51.25	33.60 - 33.70
Malaysia	[illegible]	[illegible] - 2.5800
Mexico	4.7430 - 4.7480	3.1100 - 3.1120
N.Zealand	2.8045 - 2.8085	1.8390 - 1.8415
Saudi Ar	5.7085 - 5.7200	3.7495 - 3.7505
Singapore	2.4475 - 2.4535	1.6075 - 1.6085
S.Af (Cm)	4.8570 - 4.8680	3.1975 - 3.1995
S.Af (Fn)	7.0455 - 7.0915	4.6200 - 4.6500
Taiwan	39.90 - 40.05	26.15 - 26.25
U.A.E.	5.5896 - 5.6025	3.6715 - 3.6735

(Earlier rows of this table [illegible])

EXCHANGE CROSS RATES

	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C $	B Fr.	...
£	1	1.522	2.492	160.7	8.385	2.227	2.791	[illegible]			
$	0.657	1	1.637	105.6	5.509	1.463	1.83[illegible]	[illegible]			
DM	0.401	0.611	1	64.49	3.365	0.894	1.12[illegible]	[illegible]			
YEN	6.223	9.471	15.51	1000.	52.18	13.86	17.41	[illegible]			
F Fr.	1.193	1.815	2.972	191.7	10.	2.656	3.33[illegible]	[illegible]			
S Fr.	0.449	0.683	1.119	72.16	3.765	1	1.25[illegible]	[illegible]			
N Fl.	0.358	0.544	0.891	57.45	2.998	0.796	1	[illegible]			
Lira	0.441	0.672	1.100	70.92	3.700	0.983	1.23[illegible]	[illegible]			
C $	0.514	0.782	1.280	82.54	4.307	1.144	1.43[illegible]	[illegible]			
B Fr.	1.953	2.973	4.867	313.9	16.38	4.350	5.40[illegible]	[illegible]			
Pta	0.526	0.801	1.311	84.53	4.411	1.171	1.471	[illegible]			
Ecu	0.784	1.194	1.955	126.0	6.576	1.747	2.19[illegible]	[illegible]			

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls July	Calls September	Calls December	Puts July	Puts September	Puts December
117	1.50	1.61	-	0.02	0.35	0.97
118	0.61	1.13	-	0.12	0.67	-
119	0.10	0.65	-	0.84	1.17	-
120	-	0.33	0.57	-	1.63	-
121	-	0.15	-	-	-	-
Open Int	[illegible]	145,587	31,683	28,110	129,391	23,562

Estimated volume 41,863 † Total Open Interest 412,207

† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
•Henry Ansbacher	6	Exeter Bank Limited	7	•Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	•Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	•Smith & Williamson Secs.	6
Bank of Cyprus	6	•Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	•Hambros Bank	6	Unibank plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	•United Bk of Kuwait	6
Barclays Bank	6	•Hill Samuel	6	Unity Trust Bank Plc	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Western Trust	6
•Brown Shipley	6	Hongkong & Shanghai.	6	Whiteaway Laidlaw	6
CL Bank Nederland	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
Citibank NA	6	•Leopold Joseph & Sons	6	Yorkshire Bank	6
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

• Members of British Merchant Banking & Securities Houses Association

POUND - DOLLAR

[illegible]

MONEY MARKETS

Awaiting Bundesbank

SOME money market dealers yesterday moved towards the view that the Bundesbank could cut interest rates at its fortnightly council meeting this week, *writes James Blitz*.

The D-Mark has remained soft inside the European exchange rate mechanism in recent days, adding to speculation that the Bundesbank might resist cutting interest rates, a move that would allow the currency to depreciate further.

UK clearing bank base lending rate
6 per cent
from January 26, 1993

But comments earlier this week from Mr Otmar Issing, the Bundesbank's chief economist, have led some dealers to think that the Bundesbank might ease monetary policy tomorrow for the first time in a month.

Mr Issing said that M3 money supply figures for May – due out this week – should fall inside the Bundesbank's target range, having badly overshot the parameters in April. The tone of the remarks contrasted with the hawkishness of his colleagues earlier this month.

Moreover, there has been no overt hawkishness from the Bundesbank in the run-up to this council meeting. "If the Bundesbank were going to leave rates unchanged, you might have expected them to soften up the market first," said one dealer yesterday.

Yesterday's announcement that there will be a variable rate tender for funds over 14 days and 28 days gave no clues as to what the Bundesbank will do with the repo rate today. However, call money applied no pressure on the repo, the lowest accepted rate for which is 7.60 per cent. Call money was several basis points more expensive yesterday, at 7.85 per cent, as June tax payments started to drain funds from the market.

Euromark futures were bullish for rate cuts. The September contract closed at 93.30, up 4 basis points on the day, and pricing nearly 100 basis points off 3 month money in the next 12 weeks.

Sterling markets were quiet in anticipation of the chancellor of the exchequer's Mansion House speech yesterday.

The September short sterling contract dropped 1 basis point on the day, closing at 94.17. The June contract, which expires today, closed in line with 3-month money at 94.06.

The 3-month cash rate closed 1/16 per cent softer at 5¾ per cent, following the swift despatch of a £1bn shortage in the discount market.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close June 15.

INDICES

NEW YORK DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA TORONTO

TOKYO - Most Active Stocks

Tuesday, June 15, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.0m	352	-13	Sumitomo Bank	2.8m	2,280	-70
Toshiba Corp	3.8m	680	-24	Mitsubishi Hvy	2.7m	680	-12
Sumitomo Mt Ind	3.7m	668	-32	Nikko Kyodo	2.6m	545	-16
NEC Corp	3.6m	985	-15	NKK	2.6m	323	-10
Hitachi Zosen	3.0m	601	-19	Fujitsu	2.6m	757	-21

4 pm close June 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	1993 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	24	181	13½	13⅛	13⅜	+⅛
29⅜	20	A L Labs A	0.18	0.7	48	446	27⅝	26¾	27⅜	+1
63½	54⅝	AMP Inc	1.60	2.5	22	1615	63⅛	62⅛	63	+⅜
72¾	55½	AMR			10	3713	68⅞	67¾	68	-½
2¼	1¾	ARX			12	12	2	2	2	
51½	29⅞	ASA	2.00	4.4	29	1777	45¾	43⅞	45¼	+1½
30¾	22⅝	Abbott Lab	0.68	2.6	17	5842	26¾	26	26⅛	-⅞
12⅝	10¼	Abitibi Pr	0.50	4.5	4	5	11⅛	11⅛	11⅛	
11⅞	10¾	ACM Gvt In	0.96	8.2		104	d11¾	11½	11¾	+⅛
10	9⅛	ACM GvOpp	0.80	8.3		198	9¾	9⅝	9⅝	-¼
9⅝	8¾	ACM Gvt Sp	0.80	8.5		280	9½	9⅜	9⅜	
11⅜	10½	ACM Gvt Se	0.96	8.6		311	11⅛	11	11⅛	+¼
11	9⅝	ACM Man	1.08	10.3		324	10¾	10½	10½	-¼
9⅞	8⅝	ACM Managd	0.72	8.0		149	9	8⅞	9	+⅛
11	7¾	Acme Clev	0.40	3.6	14	684	d11	10½	11	+⅝
9¼	6½	Acme Elect			295	105	8⅞	8¾	8⅞	+⅛
16	10⅛	Acuson			14	794	13	12¾	13	
22¼	18⅝	Adams Expr	0.48	2.3	1	39	21⅛	20⅞	21	
66	45½	Ad Micro	3.00	6.0		532	51⅛	50¼	50¼	+¼
32¾	17⅝	Ad Micro P	3.00	13.8		919890	22½	21¾	21¾	+⅜
7¾	5½	Advest Grp	0.16	2.7	10	40	6⅛	5⅞	6	
24¾	20	Advo Inc	0.06	0.3	22	60	20⅞	20¾	20¾	-⅛
49⅜	41⅛	Aegon ADR	2.95	6.4	9	60	45¾	46⅛	46¼	-½

[illegible]

1993 High	1993 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
48¼	43½	BankAm A	3.25	6.7		41	48¾	48⅝	48⅝	
87⅞	76	BankAm B	6.00	7.0		19	86¼	85¼	86⅛	-⅛
78	65¾	Bankers Tr	3.12	4.4	7	1766	70⅞	70	70½	+⅞
29⅛	22½	Barclays ADR	0.90	3.1	99	311	28⅞	28⅝	28¾	
35¼	21¼	Bard (C R)	0.52	2.0	16	1772	26⅞	26½	26⅝	-⅛
33	29⅞	Barnes Grp	1.40	4.4	60	3	32⅛	32	32	
50⅜	40	Barnett Bk	1.44	3.0	20	5505	47⅞	47	47¾	+⅜
8¼	5⅛	Beroid x	0.20	2.7	31	2683	7¾	7¼	7½	+⅛
10	4⅞	Battle Mt	0.10	1.1	18	9691	8¾	8¼	8¾	+⅜
67½	48	Bausch Lomb	0.88	1.8	17	1131	51⅛	49⅞	50	-1⅜
32¾	27⅛	Baxter x	1.00	3.5	15	6451	28⅝	28⅝	28⅝	-½
29	24⅜	Bay St Gas	1.42	5.3	14	45	27⅛	26⅞	27	
25	22	Bd Tr 1838	1.82	7.7		55	23⅞	23½	23¾	
23	15¾	Bear Stms	0.60	2.8	7	654	21⅝	21½	21⅝	+¼
49	45½	BearStPfA	2.77	5.7		2	48½	48½	48½	
24¾	20½	Bearings	0.64	[illegible]	[illegible]	26	22⅛	21¾	21¾	-½
25½	20¾	Beckman In	0.36	1.7	13	157	22	21¾	21¾	
40¾	32⅝	Becton Dke	0.68	1.7	14	3302	39¼	38½	39	-¼

Continued on next page

هكذا من الأصل

4 pm close June 15

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

NASDAQ NATIONAL MARKET

4 pm close June 15

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
A&WBrands	0.32	16	1760	19¾	18½	18⅝	-⅝
ACC Corp	0.12	28	106	14¼	13¾	14	
Acclaim E		35	10735	27⅛	24½	24⅝	-2¼
Acme Mtls		41	179	u18	17½	18	
Acxiom Cp		30	3443	18½	17½	18	-¼
Adaptech		12	3565	21⅝	20¾	21	-½
ADC Tele		28	758	u55¾	54½	55½	+1
Addington		42	1146	15¾	15¼	15¾	+¼
Adia Serv	0.16	18	10	21¾	21	21¾	+½
Adobe Sys	0.40	36	13067	u74	71¾	72	-½
Advance C		11	206	13⅛	12⅝	12⅝	-⅜
Adv Logic		13	178	4⅛	3¾	3¾	-⅜
Adv Polym		15	120	7¼	6⅞	7	+⅛
AdvTchLab		29	1035	17½	16¼	17½	-¼
Advanta	0.25	19	3127	u47¼	43¾	46½	+3¼
Affymax		18	471	16½	16	16½	+¼
Agency Re		13	173	8⅝	8⅛	8⅝	+¼
AgnicoEa	0.10	43	1977	8¾	8	8¾	+¾
Akzo ADR	2.60	8	403	40⅜	39⅝	39⅝	-1
Aldus Cp		93	2942	16¾	15	16¾	+1¼
Alex Bald	0.88	14	392	27¾	26¼	26½	-¾
Allegh &W		14	493	9¼	8⅞	9¼	
Allen Org	0.48	13	5	30¼	29	29½	
Allen Ph		7	311	9¾	9¼	9¼	

[illegible]

AMEX COMPOSITE PRICES

4 pm close June 15

[illegible]

AMERICA

More good inflation news fails to lift Dow

Wall Street

ANOTHER batch of good news on inflation failed to lift stock market sentiment yesterday as equity prices eased slightly in moderate trading, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial average was down 9.13 at 3,505.56. The more broadly based Standard & Poor's 500 was 0.74 lower at 446.99, while the Amex composite was down 0.11 at 435.07, and the Nasdaq composite up 0.98 at 697.39. Trading volume on the NYSE was 134m shares by 1 pm.

After last week's promising May producer prices report, which suggested that inflationary pressures in the economy were not as strong as originally feared, dealers and investors were hoping that yesterday's May consumer prices data would prove a similar source of comfort.

In the event, the numbers were encouraging: the Labor department said that the consumer price index rose by only 0.1 per cent last month, and that the "core" measure of prices (which excludes the volatile food and energy components) was up by 0.2 per cent. The figures were slightly better than forecast, and probably rule out the likelihood of an interest rate rise by the Federal Reserve.

The good news, however, did not persuade investors to buy stocks. Concern about the weak state of the economy, the absence of a big, upward movein bond prices, and a sharp decline in IBM shares may have been behind the markets' poor performance. At one stage the Dow was down by 20 points, before recovering.

IBM fell $1¼ to $50⅞ in volume of 1.7m shares after Salomon Brothers warned that there might be further write-offs at the company, which could lead to IBM halving its dividend.

Eastman Kodak, which rose sharply on Monday in anticipation of a big announcement from the company, dropped $⅝ to $53¼ in volume of 1.8m shares after it revealed plans to spin off its Eastman Chemical subsidiary.

Heinz fell $1 to $36⅝ after announcing a $192m pre-tax restructuring charge for the fiscal fourth quarter, which depressed after-tax earnings for the quarter to $69.7m, down from $145.7m a year ago.

Reebok plunged $5¼ to $29 in busy trading as investors reacted negatively to the company's warning that its second quarter earnings will come in well below market estimates.

Tiffany jumped $3 to $31¼ on the news that it will assume marketing and merchandising for 29 stores currently operated in Japan by Mitsukoshi.

SAO PAULO was 4.6 per cent higher in midsession trading as investors reacted positively to the austerity measures announced by the Brazilian government on Monday night. The Bovespa index was 2,083 stronger at 47,246.

News that the government would speed up the sale of its power utility system lifted Eletrobras by 11.5 per cent.

Canada

TORONTO was strong in precious metals in otherwise steady midsession trading. The TSE-300 index was 2.13 higher at 3,874.29 in volume of 26.5m shares valued at C$271.2m. Declines edged advances by 291 to 269.

The precious metals index was up 90.83, or 1.1 per cent at 8,097.81, defying a slide in Comex gold futures which had weakened after lower than expected US consumer price data.

ASIA PACIFIC

Tokyo falls back 1.7% as the yen continues to rise

Tokyo

A STALEMATE over the government's political reform policy, compounded with a further rise in the yen, discouraged investors, and the Nikkei average fell 1.7 per cent on selling by margin traders and investment trusts, *writes Emiko Terazono in Tokyo.*

The 225-issue average ended 351.47 off at the day's low of 20,045.88, having registered a high for the session of 20,393.23 in the morning.

Volume was 350m shares, against Monday's 261m. Sales were spread across the board, with declines overwhelming advances by 1,037 to 73, with 61 issues unchanged. The Topix index of all first section stocks dipped 39.58 to 1,619.88, and in London the ISE/Nikkei 50 index shed 2.45 to 1,216.32.

The dollar closed at a new low of Y105.03, down Y0.17, after briefly falling below Y105. Active buying by the Bank of Japan, however, supported the dollar. Traders said a fall of the Nikkei through 20,000, due to a further rise in the yen, would heighten calls for a cut in the official discount rate.

Investors turned sellers as uncertainty over the passage of the political reform bill intensified, prompting fears that Mr Kiichi Miyazawa, the prime minister, who vowed political reform, would be forced to resign. Concern that such developments might affect the economic planning ability of the government unnerved investors.

Exporters continued to face selling. Toshiba lost Y24 to Y690, NEC Y15 to Y985 and Toyota Motor Y70 to Y1,570.

Banks, which had been recent gainers on speculation of an imminent interest rate cut, retreated on profit-taking: Industrial Bank of Japan declined Y100 to Y2,940, while Sumitomo Bank receded Y70 to Y2,280.

Other interest rate-sensitive issues were also down, with Nippon Steel, the day's most active issue, losing Y13 at Y392 and NKK slipping Y10 to Y323. Nippon Telegraph and Telephone fell Y13,000 to Y946,000 on margin selling.

Daiei, the country's largest supermarket chain, which announced plans to absorb three retailing affiliates, dropped Y90 to Y1,060.

Securities companies lost ground, with the sector, the top loser of the day, down 3.9 per cent.

In Osaka, the OSE average fell 558.13 to 22,376.46 in volume of 18.5m shares.

Roundup

AMONG THE region's markets profit-taking was much in evidence.

HONG KONG closed slightly higher as afternoon profit-taking trimmed early gains, with the market awaiting news from Sino-British talks in Beijing on the colony's political future.

The Hang Seng index finished 16.72 firmer at 7,283.46 after climbing 81 points early in the day. Turnover was moderate at HK$4.3bn.

SEOUL slipped back for the fifth consecutive session, the composite index losing 1.63 to 757.84, off the day's high of 761.63. Turnover contracted to Won539.6bn.

TAIWAN reversed early losses to end moderately higher on cautious bargain hunting after recent falls.

The weighted index, which had dropped more than 25 points in early trading, closed a net 21.10 up at 4,198.30. Turnover shrank to T$10.2bn.

MANILA fell back as many investors awaited imminent new public listings. The composite index lost 12.85 to 1,568.42 in turnover of 202.6m pesos.

KUALA LUMPUR continued to decline, the composite index shedding 3.74 to 739.42. Volume was 494.8m shares, against Monday's 811.9m. In SINGAPORE the Straits Times Industrial index weakened 23.00 to 1,819.83.

AUSTRALIA traded in a tight range in spite of a weaker gold bullion price. The All Ordinaries index put on 9.7 at 1,724.0 in A$45.5m turnover.

NEW ZEALAND was led higher by an 8-cent gain in Fletcher Challenge to NZ$2.74. The NZSE-40 index advanced 7.13 to 1,637.00 in light turnover of NZ$19.0m.

BANGKOK was mixed as investors sold major property shares to take profits. The SET index gained 2.93 at 871.17 in active turnover of Bt8.42bn.

Krung Thai Bank, whose Bt10 par shares will start trading today, rose Bt10 to Bt396 and was the most active stock.

BOMBAY fell sharply on reports that a stockbroker at the centre of the country's biggest financial scandal had offered to turn state's witness to testify about possible pay-offs to leading politicians. The BSE index declined 68.41 to 2,289.13.

SOUTH AFRICA

INDUSTRIAL shares gained ground in late trading on futures-related buying and the index improved 39 to 4,629. The golds index advanced 33 to 1,595 and the overall index 28 to 3,932. De Beers rose 50 cents to R77.50.

Catastrophes enrich the top reinsurers

Shares in Munich Re and Swiss Re have put on speed recently, writes Richard Lapper

Buoyed by tightening capacity and rising reinsurance premium rates, Munich Re and Swiss Re, the world's first and second biggest reinsurance companies, can look forward to a period of rising prosperity. Their shares have surged ahead strongly in recent months.

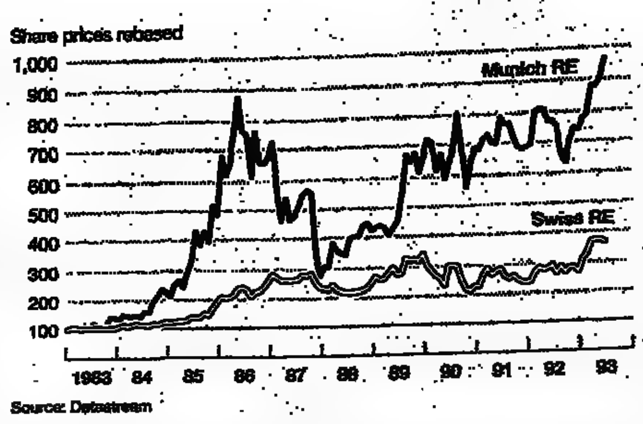
On past experience the "turn" in the insurance cycle augurs well for the reinsurers. Between 1984 and 1986, the last time reinsurance rates rose significantly, the share prices of Munich Re and Swiss Re doubled relative to their local stock markets and tripled in absolute terms.

With the reinsurance market in a similar state of buoyancy today, reinsurers could be embarked on a similar bull run. Underpinning the upturn is a fall in the capital committed to reinsurance markets, following a sharp growth in the frequency and cost of natural catastrophes. The cost of major storms in the 10 years between 1983 and 1992 escalated to $52.1bn compared with $18.9bn between 1980 and 1989.

The failure of many Lloyd's syndicates and smaller London market companies – which acted as "reinsurers of last resort" – has reduced drastically the supply of high level excess of loss reinsurance, leading to cumulative rate increases of up to 800 per cent for high level catastrophe reinsurance over the past four years, and more moderate rises across the board.

Messrs Michael Huttner and Angus Runciman, analysts with BZW Research, estimate that capital available to back reinsurance premiums has fallen by some £4.8bn over the last three years. "The hard market," BZW predicts, "will be sustained for the next three years at least."

The collapse of the London market has led to a "flight to quality" by buyers seeking greater security from reinsurance companies. BZW expects bigger companies to dominate a "two-tier market", with the market share of the world's top 15 reinsurers winning market share at the expense of smaller competitors.



Source: Datastream

Reflecting these new market conditions, shares of reinsurers have begun to rise strongly. Last month the share price of Munich Re's registered stock reached DM3,220, an increase of more than 30 per cent from their 1992 average of DM2,510 and in excess of 50 per cent from their 1992 low of DM2,065. The price of Swiss Re's registered shares touched SFr3,100 in mid-April, nearly 50 per cent above their 1992 average price of SFr2,322.50.

Analysts are almost uniformly bullish. Mr Tom Bennett, of Paribas Capital Markets, says that following its strong performance in recent months, Munich Re has a further dimension as a heavily discounted investment trust, with its net worth of more than DM5,000 per share based largely on a strong portfolio of German equity investments.

BZW suggests that "Munich Re . . . would probably outsurvive its competitors in the event of the worst possible event (for the reinsurance markets), a Tokyo earthquake" and also recommends investors to buy SCOR, the smaller French reinsurance company, as well as Swiss Re.

Mr Peter Constable, an analyst with Flemings Research, also favours Swiss Re, which has recently refocused on to its core reinsurance business, following an ill-fated diversification into service companies in the 1980s.

He says the company will be a major beneficiary from recent rate increases. But with foreigners still unable to buy the company's registered shares, and bearer shares thin on the ground, Mr Constable recommends that large investors buy participating certificates issued by the company.

Mr Constable, however, sounds a cautious note on Munich Re. He says the company's results in the past two years have been supported by a release of provisions in 1990 and 1991 and by "abnormally large" realised gains in 1991 and 1992.

EUROPE

Milan shaken by more Ferruzzi shock waves

SENIOR markets were weaker yesterday as Wall Street opened easier, *writes Our Markets Staff.*

MILAN continued to be affected by shock waves from Ferruzzi group companies, while the end of the June account today also exerted a negative influence as the Comit index lost 14.07 to 513.37.

An additional burden was placed on the Ferruzzi group following Monday's post-bourse announcement of a L1,058bn, two-for-one rights issue from Fondiaria, the country's third largest private-sector insurer.

Fondiaria is controlled jointly through the Gaic holding company by Ferruzzi and the family of Mr Camillo De Benedetti, who died earlier this year. It closed L2,742, or 10 per cent lower at L24,101 while Gaic was suspended to the end of the session after it, too, fell by some 10 per cent.

Some analysts noted that since neither Gaic, nor the debt-laden Ferruzzi are in a position to subscribe, the underwriting banks – Mediobanca, BCI, Banca de Roma, Credito Italiano and San Paolo – would be left with effective control of the insurer.

Ferruzzi closed yesterday down L68.80 at L593.50 while Montedison, which is reported to be about to dispose of its Himont and Ausimont subsidiaries, settled at L779, down L196.

FRANKFURT eased back, wary of the Bundesbank meeting tomorrow and the "triple-witching" closure of DTB options contracts on Friday. The DAX index fell 7.88 to 1,684.10 in turnover reported to be lower than Monday's DM5.9bn.

The DTB effect was suspected in the performance of Commerzbank, which rose by DM4 to DM303.50 against the market and against the sector – Deutsche Bank fell DM4 to DM695.50 – and traded in 400,000 shares, four times its usual volume on Ibis, the German screen-based dealing system.

In retailing, Karstadt and Kaufhof underperformed the market. Mr Roland Wren, a dealer with James Capel in Frankfurt, said that both had climbed recently on surprisingly good results, but that this was now old news and investors were coming back to the study of cyclicals in the hope that German recovery prospects will be a talking point after the summer.

PARIS eased back in technical trading and light turnover as the CAC-40 index finished down 18.98 at 1,897.86. Turnover was some FFr1.9bn.

The oil sector was weak, in line with falling crude prices, with Elf down FFr5.80 to FFr377.80 and Total losing FFr2.20 to FFr263.00.

Michelin slipped FFr3.50 to FFr144.00 on profit-taking after a recent strong performance, while Peugeot was off FFr17 to FFr510 as investors began to anticipate bad news at next week's annual meeting.

MADRID advanced, mostly late in the day, to its fourth consecutive gain following its losses on the Socialist election victory. The general index closed 1.40 higher at 259.89 in turnover of Pta16.5bn.

Mr Peter McGahan of Schroder Securities said that a major Spanish bank executed some fairly large UK orders for banks, and Repsol. BBV rose Pta50 to Pta3,115 and Repsol Pta65 to Pta3,290.

ZURICH extended its period of profit-taking, the SMI index falling another 20.2 to 2,274.0. Nestlé lost SFr9 to SFr1,092, SBC SFr7 to SFr338 in a weak banking sector and, elsewhere in financials, Swiss Re dropped SFr100 to SFr3,050.

AMSTERDAM rose modestly, helped by DSM's Fl 2.00 gain to Fl 88.30 on recent positive comment for cyclical stocks.

However, Hoogovens, which has a done well over the last few days, lost Fl 1.30 to Fl 32.40 as some investors decided that it was time to take profits.

The CBS Tendency index advanced 0.3 to 108.7.

Another strong performer was Fokker, up Fl 1.10 to Fl 15.90, after announcing orders for new aircraft.

STOCKHOLM rose on US buying with the financial sector gaining 4.8 per cent and the Affärsvärlden general index 5.50 to 1,075.70.

TEL AVIV reversed a sharp two-day decline after the Israeli prime minister, Mr Yitzhak Rabin, quashed rumours that the government would soon impose a capital gains tax.

The Mishtanim blue chip shares index jumped 5.77, or 2.9 per cent to 202.43 in turnover of Shk195m.

ISTANBUL failed to break through the 10,000 level as the index closed 48.69 higher at 9,804.36 with investors continuing to react positively to the appointment of Mrs Tansu Çiller as prime minister.

FT-SE Actuaries Share Indices

June 15 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1175.56	1174.74	1174.13	1173.21	1173.97	1173.59	1173.69	1173.17
FT-SE Eurotrack 200	1232.30	1231.48	1230.89	1229.57	1229.93	1229.88	1230.27	1229.86

	Jun 14	Jun 11	June 10	June 9	June 8
FT-SE Eurotrack 100	1181.59	1181.85	1181.45	1181.59	1168.70
FT-SE Eurotrack 200	1234.83	1232.37	1230.25	1230.01	1218.06

Base value 1000 (26/10/90) High/day: 100 - 1175.76; 200 - 1232.81 Low/day: 100 - 1171.88 200 - 1228.24

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JUNE 14 1993 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JUNE 11 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
Australia (68)	132.91	−0.8	129.01	88.30	112.22	131.10	+0.0	3.82	134.04	130.27	89.86	113.28	131.10	144.19	117.39	148.64
Austria (18)	149.24	+0.7	144.85	99.15	126.00	125.99	+0.8	1.56	148.15	143.98	99.32	125.20	124.96	150.96	131.16	175.39
Belgium (42)	145.84	+1.0	141.55	96.88	123.14	120.13	+0.8	4.76	144.40	140.34	96.79	122.03	119.12	156.76	131.19	144.24
Canada (108)	127.29	+0.3	123.54	84.56	107.46	118.12	+0.4	2.85	126.90	123.33	85.07	107.24	117.62	129.97	111.41	127.93
Denmark (33)	217.64	+0.2	211.24	144.59	183.75	183.67	+0.3	1.23	217.18	211.07	145.69	183.54	183.14	225.64	185.11	239.33
Finland (23)	90.09	−1.1	87.44	59.86	76.07	102.75	−1.3	1.19	91.06	88.50	61.05	76.95	104.15	100.92	65.50	78.20
France (97)	156.66	−0.3	152.05	104.07	132.26	134.17	−0.2	3.35	157.13	152.71	105.33	132.78	134.45	167.36	142.72	161.15
Germany (62)	114.17	+0.6	110.81	75.86	96.39	96.39	+0.5	2.20	113.45	110.26	76.06	95.87	95.87	117.10	101.59	124.85
Hong Kong (55)	296.18	+0.0	287.48	196.77	250.08	293.88	+0.0	3.21	296.20	287.87	198.56	250.33	293.88	301.61	218.82	245.16
Ireland (15)	163.35	−0.4	158.54	108.52	137.92	153.39	−0.2	3.62	164.08	159.46	109.99	138.66	153.77	170.40	129.28	158.97
Italy (73)	68.61	−0.4	66.59	45.58	57.92	75.68	−0.5	2.24	68.85	66.91	46.15	58.18	76.05	72.82	53.78	70.28
Japan (470)	155.96	+1.0	151.37	103.61	131.69	103.61	+0.0	0.80	154.49	150.14	103.56	130.57	103.56	155.96	100.75	100.80
Malaysia (69)	349.34	+0.6	339.07	232.08	294.95	344.90	+0.4	1.96	347.14	337.37	232.70	293.36	343.66	349.34	251.66	241.90
Mexico (18)	1438.19	−0.3	1395.90	955.47	1214.28	4907.56	−0.4	1.38	1442.30	1401.76	966.88	1218.91	4929.61	1725.81	1410.30	1589.31
Netherland (24)	170.26	+0.4	165.25	113.11	143.76	141.51	+0.5	3.69	169.65	164.88	113.72	143.37	140.81	172.75	150.39	163.81
New Zealand (13)	48.77	−0.5	47.33	32.40	41.18	47.69	−0.5	4.65	49.01	47.63	32.86	41.42	47.93	49.82	40.56	46.16
Norway (22)	153.09	+0.3	148.58	101.70	129.25	142.80	+0.4	1.85	152.62	148.33	102.31	128.98	142.26	168.21	137.71	183.56
Singapore (38)	256.13	−1.0	248.60	170.16	216.25	189.97	−1.0	1.81	258.67	251.40	173.41	218.60	191.86	262.72	207.04	229.63
South Africa (60)	192.16	−1.7	186.51	127.66	162.24	194.67	−1.3	2.58	195.49	189.99	131.04	165.20	197.19	201.01	144.72	238.65
Spain (46)	130.15	+0.1	126.32	86.47	109.88	122.75	+0.1	4.86	130.02	126.36	87.16	109.87	122.58	132.82	115.23	153.53
Sweden (36)	177.55	−0.7	172.33	117.96	149.91	189.91	−0.4	1.77	178.83	173.80	119.88	151.13	190.67	184.06	149.70	196.51
Switzerland (52)	128.47	−0.4	124.70	85.36	108.48	115.41	−0.5	1.89	129.01	125.38	86.49	109.04	115.94	129.36	108.91	108.19
United Kingdom (219)	179.12	+0.9	173.85	118.99	151.22	173.85	+0.8	4.00	177.54	172.54	119.00	150.02	172.54	181.99	162.00	193.17
USA (519)	182.86	+0.1	177.48	121.49	154.40	182.86	+0.1	2.80	182.64	177.50	122.44	154.35	182.64	186.27	175.38	167.02
Europe (762)	147.11	+0.4	142.79	97.74	124.21	134.83	+0.3	3.30	146.55	142.43	98.24	123.86	134.38	149.02	133.92	153.71
Nordic (114)	165.49	−0.5	160.62	109.94	139.72	156.83	−0.3	1.59	166.26	161.59	111.46	140.51	157.28	171.77	142.13	181.24
Pacific Basin (713)	159.07	+0.8	154.39	105.68	134.31	110.18	+0.0	1.06	157.79	153.35	105.78	133.35	110.14	159.07	105.89	107.33
Euro-Pacific (1475)	154.05	+0.6	149.52	102.34	130.06	120.87	+0.2	1.94	153.06	148.76	102.60	129.35	120.69	154.05	117.26	126.09
North America (627)	179.40	+0.1	174.12	119.20	151.49	176.45	+0.1	2.80	179.17	174.13	120.12	151.44	178.21	182.38	171.51	164.56
Europe Ex. UK (543)	127.26	+0.0	123.52	84.56	107.47	112.85	+0.0	2.82	127.22	123.64	85.30	107.53	112.79	128.65	112.51	130.07
Pacific Ex. Japan (243)	190.30	−0.3	184.70	126.44	160.69	175.92	+0.0	3.13	190.79	185.42	127.92	161.25	176.00	194.08	152.70	171.59
World Ex. US (1661)	154.27	+0.6	149.74	102.50	130.26	122.83	+0.1	1.97	153.36	149.05	102.82	129.61	122.66	154.27	118.51	128.34
World Ex. UK (1961)	161.24	+0.4	156.50	107.13	136.15	138.15	+0.1	2.10	160.65	156.13	107.70	135.78	138.06	161.34	134.22	135.44
World Ex. So. Af. (2120)	162.74	+0.4	157.96	108.13	137.42	140.96	+0.1	2.28	162.04	157.48	108.63	136.95	140.76	162.74	137.29	139.77
World Ex. Japan (1710)	168.50	+0.2	163.55	111.96	142.29	162.16	+0.2	2.98	168.23	163.49	112.78	142.19	161.88	170.05	157.47	162.60
The World Index (2180)	162.83	+0.4	158.04	108.18	137.49	141.43	+0.1	2.28	162.15	157.59	108.70	137.04	141.24	162.86	137.32	140.42

Markets closed June 14: Australia and Hong Kong. Latest prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

TELECOMMUNICATIONS IN BUSINESS

SECTION III

Wednesday June 16 1993

As competition intensifies, so does the complexity of tariff structures and the range of options and services Picture: Tony Andrews

Change is so rapid that to plan even for the next two or three years companies must be familiar with all the main telecoms trends

Opportunities galore

The UK telecoms sector, already Europe's most competitive, is about to engage in a further bout of price-cutting and aggressive marketing, writes Andrew Adonis

In assessing their telecoms needs and outgoings, never has it been harder for companies to keep track of costs, competition and the potentiality of new technology.

UK companies have a tougher job than most. Britain's telecoms sector, already at the head of Europe's competition league, is about to engage in a further bout of price-cutting and aggressive marketing as new entrants establish themselves and established telecoms companies – not just the giant BT, but Mercury and the two mobile operators Cellnet and Vodafone – fight to keep their volumes and profits.

In telecoms, sorting the wood from the trees is made extraordinarily difficult *by the thick haze of acronyms* and jargon obscuring the route at every turn. It is not just new technology: as competition intensifies, so does the complexity of tariff structures and the range of options and services on the market.

For the finance director of a small or medium-sized company, who has to do the phones, the balance sheet and the contract cleaning, bewilderment is increasingly common.

Fortunately, a few rules of thumb will go a long way. First, virtually all agree that prices have further to fall – in both the fixed-line and mobile markets. Because much of the pressure for price reductions in the US and UK is likely to come from new entrants, look carefully at anything they have to offer – once you have checked the respectability of their operating credentials. One simple test is: did their directors previously work for one of the big telecoms companies?

Second rule of thumb: don't think you need to stick with just one or two suppliers. For most business users, least-cost routeing software or "smart boxes" can take the pain out of call-by-call and day-to-day decisions on users. In the mobile market, very favourable deals on offer from new entrants with restricted networks – such as, in the London region, those of Hutchison Telecom and Mercury One-2-One – could make it worthwhile for companies to *patronise* more than one company, or even to give employees two portable handsets.

The majority of PABX systems sold today either come with or are compatible with least-cost routeing software. For those without it, but *with compatible systems*, installation typically costs about £300. "Smart" equipment is more expensive and less reliable, but reliability is improving and for most users the cost works out at about £100 a line.

In the fixed-line business, the best prices are often those from new entrants re-selling leased lines and connecting them to private networks. A telling case study is the rise of Worldcom, a London-based company plying the international resale trade for the 18 past months. It now has more than 100 customers and expects to have "a few thousand" by next year. Its rates are highly competitive with BT and Mercury, particularly for transatlantic traffic – and according to the Telecommunications Users' Association, there have been virtually no complaints about reliability.

Worldcom is about to lease lines to Manchester, Birmingham, Heathrow and Glasgow, making it economic for non-City of London companies to link up with the operator. It also has a public network operators' licence pending; if it secures one, it will be able to route calls over BT's network, giving it a strong appeal even *to smaller companies.*

At the other end of the fixed-line market, the cable TV companies – many of them with US parents anxious to learn the TV trade from which they are barred at home – are fast establishing local telephone networks which could soon *challenge* BT in conurbations.

The cable TV franchise operators currently have only 160,000 telephone subscribers, and some made a shaky start. They also suffer from the absence of number portability – an issue before Oftel, the industry regulator – which makes it hazardous for companies to sever all connection with BT. But the cable companies are still in the early stages of construction: once they have reached the 15m in their franchise areas, BT's virtual monopoly of the local network will be under serious threat. In the US, MCI, the second-largest operator, now has about 18 per cent of long-distance traffic. In the UK, BT has ceded nearly 10 per cent of the market – and half or more of all outgoing traffic from the City of London – to Mercury.

Another two UK national networks are under construction. Ionica, a private Cambridge-based company, is building a radio-based network for launch in early 1995. Energis, a subsidiary of National Grid, is wrapping fibre-optic around its pylons and is promising a price war with BT and Mercury as early *as next spring, with a network* connecting 17 of Britain's leading towns and cities. Energis will have to interconnect with BT to convey its calls the "last leg" but the cable companies offer the medium-term prospect of avoiding BT even in much of the *local loop.*

It is the same story in the UK mobile market, where the huge margins of Vodafone and Cellnet are coming under sustained assault. Hutchison's Rabbit "telepoint" service may lack the flexibility of Vodafone and Cellnet but at 20p a peak-rate minute inside the M25 its tariffs are less than two-thirds their standard rates. Mercury One-2-One is currently testing its PCN mobile service; it plans to launch it within the M25 this summer with a peak rate as low as 16p a minute and an access charge for high-volume users of about £20 – although One-2-One handsets will cost slightly more than the cheapest on offer from Cellnet and Vodafone.

With One-2-One's PCN network due to cover 24 per cent of the population by April 1994, Vodafone and Cellnet can ill afford to sit by for long without cutting their tariffs. So the fire alarm mentality of existing mobile users ("break seal to use") could soon be a thing of the past.

For most companies, getting the best price for existing services is a more pressing priority than *high-flown debates about the virtues* of national optical-fibre networks. Yet so rapid is the speed of change that to plan even for the next two or three years companies must be familiar with the main telecoms trends. Among those covered in the *survey, two stand out:* the development of "outsourcing" and the growth in value-added services.

At its most basic, outsourcing is the contracting out of part or all of a company's telecoms network-facilities management to a telecoms carrier. *It is of particular appeal to companies anxious to modernise existing* private networks, and to multinationals looking for "one-stop-shop" arrangements to cater for their worldwide telecommunications needs.

Learning from US experience, in the UK both BT and Mercury are bidding for domestic outsourcing contracts via facilities management units. BT is also seeking to carve out a role for itself in the global outsourcing market through a new $1bn joint venture with *MCI* launched earlier this month, which will eventually subsume its Atlanta-based Syncordia subsidiary. Mainland European operators have been slower off the mark.

France Telecom and Deutsche *Telekom have joined to establish* an outsourcing company of their own, Eunetcom, while the Swiss, Dutch and Swedish state telecoms recently set up a joint venture, Unisource, to provide data transmission services to European-based multinational companies, signing up Sprint, the US carrier, to provide global links outside Europe.

Meanwhile, American Telephone and Telegraph last month launched its Worldsource service aiming to provide a "seamless" global telecoms service *through* partnerships with national telecoms carriers region by region. It has already signed up five Asia-Pacific carriers and is roaming Europe in search of partners for its launch in Europe next year.

New services on offer range from *plain paper fax machines able to* send low-priority faxes overnight, to advanced electronic data exchange permitting users to exchange business documentation using standard electronic forms, broadband services such as video-conferencing, and virtual private networks which companies use to link switchboards on different sites, even in different countries, and far more besides.

Remarkably, many of the once hidebound state telecoms utilities are leading the way in turning technology into new services. *In the US* and UK, their monopolies have been abolished; they are likely to be so soon in the rest of Europe. So they can no longer sit back, keep their networks ticking over and expect the profits to roll in regardless. For companies *it* offers opportunities galore.

IN THIS SURVEY

BT engineers installing optical fibre in London

■ Editorial production: Phil Sanders

■ DIGITAL SERVICES

New generation in wings

Over the past decade, mobile telephony has become the fastest growing segment of the dynamic global telecommunications market. Now a new generation of mobile telecommunications equipment, based on digital rather than analogue technology, is poised to deliver a wide range of sophisticated new voice and data services to business and residential customers.

The total number of cellular telephone subscribers grew by 43 per cent last year to 23m, according to figures collected by Mobile Communications, the FT newsletter. In the US, the biggest cellular market, subscriber numbers jumped by 46 per cent from 7.6m to 11.1m.

By the end of this decade half of all telephone calls worldwide are expected to originate or terminate on a mobile phone – and a growing proportion of those telephones will be operating on the new digital technology.

EMCI, the Washington-based market research organisation, has forecast that there will be about 13m digital cellular subscribers worldwide by 1996, accounting for about a quarter of the total cellular market.

This expected growth in digital cellular subscribers reflects some key advantages which digital technology can offer over older analogue systems. Among these, digital mobile telephones provide more reliable, clearer and more secure telecommunications.

In addition, by converting ordinary sound into computer code, digital services can pack at least 10 times as many calls into the same "space" in the radio spectrum. But perhaps most importantly they allow telecommunications network operators and others to provide a wide range of value-added customer services.

Significantly, although North America led the first mobile telecommunications revolution in the early 1980s, it is Europe that has taken the lead in the move towards the next generation of digital systems.

Europe has adopted a pan-European digital telecommunications standard called GSM (Groupe Speciale Mobile). "The big impact of GSM is that it is a single standard," says Mr Dean Eyers, an industry analyst with Dataquest's European telecommunications group, "and this means enormous economies of scale for equipment manufacturers."

In contrast, in the US a dispute between network operators over two rival digital standards, one called time division multiple access (TDMA) and the other called code-division multiple access (CDMA) is threatening to delay the widespread introduction of digital systems.

Twenty-three operators in 16 European countries are committed to building GSM networks, and another 20 countries around the world have adopted GSM as the basis for their next generation of cellular services.

The first GSM networks were launched last July in Germany, France and Denmark, and similar services are now being rolled out across Europe. Since last July, GSM subscribers have accounted for almost one third of all new subscribers to cellular networks in western Europe. By the end of this year Dataquest is forecasting that there will be 1.1m GSM subscribers in Europe, growing to 8.31m by the end of 1996.

In the UK, Cellnet – one of the two analogue cellular network operators – plans to have 60 per cent of its GSM network in place by year-end and will begin to actively market its system to business customers early next year. Vodafone, the other UK cellular operator, launched a limited GSM network in December and plans to have 90 per cent of its system in place by the middle of this year.

Vodafone has already reached GSM roaming agreements with Denmark, Finland, Germany and Sweden and expects to sign shortly with France, Italy and Switzerland. These agreements will eventually allow GSM subscribers carrying their personal smartcards to make calls using a GSM phone anywhere in Europe.

The GSM standard also includes a mobile data facility which will eventually enable mobile terminals, such as portable computers and fax machines, to communicate through a GSM handset at speeds comparable to the best of today's fixed telephone data links. It is also compatible with the emerging integrated services digital network, or ISDN.

"As GSM digital networks roll out across Europe and other parts of the world they brink with them a whole new range of features, says Mr Dominic von Trotha Taylor, marketing manager at Vodafone's sister company, Vodata. One of the most significant of these is the GSM Short Message Service which enables GSM handsets equipped with small LCD screens to receive messages like pagers.

The pace of transition from analogue to digital cellular systems will vary

In December, Vodafone, working with Sema Group's telecom division, became the first GSM network operators to successfully test the short message service feature. This allows an alphanumeric message of up to 160 characters – twice as long as the typical maximum length paging message – to be displayed on the handset.

The messages are sent via the short message service centre and when they arrive at the mobile they are stored in the user's SIM (smart) card ready for retrieval. SMS's unique features include the ability to send or receive messages at the same time as speaking or sending data, an alert feature for informing a third party when a mobile re-registers on the network, the ability to store a message and forward it to the mobile when it is switched on, and acknowledgement of successful message delivery.

Mr Martin O'Byrne, managing director of Sema's telecom division, believes that SMS and other features like it will provide network operators with a way of differentiating service offerings.

However, GSM and other new premium-priced digital services will not replace the older analogue networks immediately. Existing analogue network operators believe there will be a slow and gradual migration to digital services. "Analogue systems will be with us for some time," says Mr Eyers of Dataquest.

The pace of transition from analogue to digital cellular systems will vary from country to country. In those countries such as the UK which have well-established analogue systems which are not capacity constrained, the growth of GSM is likely to be relatively slow.

Analogue technology will also continue to play a key role in developing countries, including those of eastern Europe where cellular systems are already providing a relatively cheap alternative to dilapidated or non-existent fixed-wire telephone systems in many countries.

Elsewhere, fixed-wire telephone systems could also face a challenge – but from other new mobile digital cellular services which are just around the corner. For example, in the UK Vodafone plans to launch a second service on the back of GSM called the Micro-Cellular Network, or MCN, which will be a low-cost digital portable telephone service aimed at domestic customers.

Local MCN call charges are expected to be significantly cheaper than GSM services, putting the service in direct competition with fixed telephone networks. MCN is due to be launched in the south-east of England later this year in direct competition with another digital system aimed at the mass market called the personal communications network (PCN).

One-2-One, – previously Mercury Personal Communications – a joint venture between Cable and Wireless and US West, plans to launch its PCN service in the London area this summer, expanding throughout the south-east to reach a quarter of the population by April next year. Hutchison Microtel, a joint venture involving Hutchison Telecom UK and British Aerospace, is also building a PCN network but is not expected to launch its service before next year.

Elsewhere in Europe, PCN networks are likely to be built in Germany, France and Spain. Some countries have also licensed call-only Telepoint services, such as Hutchison's Rabbit service in the UK and France Telecom's recently-launched Be-Bop service in Paris.

In the office environment, cordless systems have been somewhat slower to take off than expected – perhaps because until recently they offered few if any advantages over the fixed-wire systems they were supposed to replace. However that could be changing.

Two competing digital alternatives have been developed, one based on the established CT-2 "telepoint" standard and the other built around the emerging Digital European Cordless Telecommunications (Dect) standard for private cordless telecommunications.

Dataquest expects 10 to 15 per cent of office telephone systems to be cordless in five years. Certainly, research suggests there is a market for cordless pbx systems. About 60 per cent of business calls fail to reach their intended recipient on the first attempt causing annoyance and expensive games of "telephone tag."

Paul Taylor

■ MOBILE DATA SERVICES

Market is immature

MOBILE data has an identity problem. There is little argument that the market for mobile data is potentially enormous – but for the moment many customers appear confused by the plethora of emerging services and equipment.

Market size estimates vary wildly but Arthur D Little has identified 3.8m potential users for wireless data services in the US by the end of the century and PA Consulting has predicted that there will be 2m users of two-way mobile data in the UK by the end of the decade.

To date most mobile communications have focused on voice. However data transmission has several key advantages over voice telephony: it is generally cheaper, quicker and more accurate and while pagers and cellular phones play an important role, they have limitations when it comes to transmitting complex or large volumes of information.

Estimates put the total number of subscribers to all data services in the UK at about 10,000

Typical applications for mobile data involve transferring information to and from portable computers or mobile data terminals and office computer systems or other mobile users. Potential users include the projected owners of a new generation of hand-held devices called "personal digital assistants". Mobile data will provide corporate sales forces with up-to-date customer information or keep track of emergency services, truck fleets or railway wagons.

But so far, mobile data has failed to live up to early expectations and most mobile data operators have been scaling back their subscriber projections, and in some cases their investments. The shortfall may simply reflect the fact that most services are still in their infancy, or it may be because there are a bewildering array of delivery systems.

In the UK, for example, mobile data services are offered by the cellular operators, dedicated mobile data network operators such as Hutchison, Ram Mobile Data, Cognito and Vodafone's Paknet, specialist network operators such as Securicor Datatrak, and over public and private mobile radio networks – all using incompatible standards and equipment.

Unlike the cellular telephone network operators, who have managed to attract more than 1.5m subscribers for their voice services in the UK, the uptake of data services has been somewhat disappointing. In contrast, most estimates put the total number of subscribers to all data services in the UK at about 10,000.

Generally, transmitting data over a non-dedicated service means sacrificing transmission quality, coverage or compromising in some other area such as message length. In addition, transmitting data over an analogue cellular system is considerably more difficult than over the public switched telephone network.

Nevertheless, much of the research shows that many customers require a combination of voice and data communications. One solution is to build the specialist electronics into dedicated equipment or use a special cellular modem.

Vodafone's Mobile Data Service, which claims several thousand users and claims to be "the UK's most widely-used mobile data communications solution", uses a special cellular data link control modem to enable customers to transmit and receive error-free data over the Vodafone cellular network which provides automatic standards conversion.

Another option is to wait for digital cellular telephones based on the pan-European GSM standard. Vodafone has already tested a feature developed for it by Sema called the short message service centre which enables messages of up to 160 characters to be sent to a GSM handset and displayed on its LCD screen.

Paging is perhaps the most obvious application of this facility although Vodafone acknowledges that "the size cost and short battery life of a GSM phone relative to an advanced alphanumeric pager will ensure that GSM does not compete head-to-head with the European paging market."

However, the GSM specification also includes a "V24 interface" which will eventually link the mobile directly to any terminal – for example, a mobile fax machine or a portable computer. This could bring the GSM phone into more direct competition with the dedicated mobile data networks.

The UK government issued five 25-year licenses for nationwide public mobile data networks in October 1991. Prior to this only privately-owned radio networks had existed. The new licence winners were Cognito, DMC, Hutchison Mobile Data, Motorola and Ram Mobile Data.

Of these, DMC and Motorola did not take up their licences but Paknet, now owned by Vodafone, was subsequently awarded a mobile licence in addition to its existing fixed licence under which it had been providing a packet-switch data service.

Cognito was closed after the sale of its parent, Dowty Group, last year, but was relaunched last autumn after a management buy in-buy out deal. Cognito's new service provides customers with a mobile two-way text messaging system using a hand-held communicator called a Messenger which has a small screen and keyboard and operates via the group's nationwide data cellular network.

Hutchison Mobile Data and Ram Mobile Data have also launched their mobile data services – using rival and incompatible equipment. Hutchison's system is based on Motorola's RD-LAP system which is also used by Deutsche Telekom in Germany while Ram, a joint venture involving US-based Ram Broadcasting and BellSouth, France Telcom, Swedish Telcom and Bouygues,is using Mobitex packet-switching technology developed by Ericsson.

Mobitex is beginning to emerge as a de facto standard in Europe. So far, Ericsson has won contracts from seven out of the 10 European mobile data licenses awarded. The European Telecommunications Standards Institute (Etsi) is still working on an official standard which is not now expected before 1996 at the earliest.

In the meantime the relative growth of competing mobile data technologies probably depends on how quickly useful applications software is developed. This is clearly recognised by Mr John Jarvis, Ram's new chief executive in the UK, who says the group is encouraging the development of new vertical and horizontal applications, and the migration of existing applications running on private data networks.

Already, more than 100 application projects are in trials with Ram. Among the applications which have recently been adapted for use on the Ram system are Dispatcher, a Window's-based fleet dispatch software and hardware package, and Remote-1, a comprehensive field call activity management tool and communications package.

Ram and Computer Services for Industry have jointly developed Mobilink-400

Ram and Computer Services for Industry have jointly developed Mobilink-400, an interface enabling portable terminals to interact with IBM AS-400 systems. In addition, Ram and Lotus Development have recently announced an agreement to develop a wireless version of Lotus cc:Mail, the market leader in Lan (local area networks) -based electronic mail systems which will enable portable computer users to send and receive electronic mail messages.

Mr Jarvis believes that having applications in use by real customers will give public mobile data an important head start against GSM and reinforces mobile data's distinct advantages over other mobile technologies. "We have an edge in response time and in terms of cost," he says.

One area which appears to hold particular promise for public mobile data is fleet and freight management, monitoring and security. This is also the specialist niche chosen by Securicor Datatrak. A new version of the established automatic – tracking Fleetrak system enables drivers to send and receive messages using in-vehicle terminals and printers.

Securicor Datatrak owns and manages its own wide area radio-based communications network in the UK and claims that its system has a number of advantages over other mobile data services including faster set-up times.

Over the next seven years its should become clear which mobile data technologies are going to survive the inevitable shake-out. Like many other segments of the fast-expanding mobile communications industry, mobile data is still an immature market with competing technologies jostling for position.

Paul Taylor

■ SATELLITE-BASED SERVICES

Truly global mobile network

BY the end of the decade it is likely that satellites will have added another dimension to mobile communications and provided the first truly global mobile telecommunications network.

Satellite-based systems already provide a number of key telecommunications services, particularly maritime and aeronautical communications services where land-based systems are not an option.

The market for these systems is dominated by Inmarsat, the London-based Inmarsat International Maritime Satellite Organisation.

According to Mr Justin Jameson, an analyst with *Datamonitor*, the number of Inmarsat terminals in use is expected to grow from 28,357 last year to 73,258 in 1997, a compound annual growth rate of 20.9 per cent.

Mr Jameson believes that the highest growth will take place in the aeronautical market "where both commercial and private aircraft are increasingly being fitted with Inmarsat terminals allowing the crew and passenger to make calls and send faxes."

Meanwhile the land and maritime markets will continue to grow as a result of the introduction of lower-cost Inmarsat-C and Inmarsat-M terminals including the lightweight briefcase-sized portable systems used by geologists and others who need to send or receive private and secure information from inaccessible or remote places.

However, some time before the end of the century Inmarsat will probably face competition from a new generation of low earth orbit satellites (Leos). Unlike geostationary satellites (Geos) which orbit at a height of about 12,000 miles, Leos orbit much lower at 550 to 6,000 miles.

Perhaps the biggest problem is the apparent potential oversupply of satellite system operators. Analysts believe there is only room for two new Leo-based services

Because they are closer to the earth, Leos should suffer less from the characteristic voice delay or echo heard on some satellite voice services.

In addition, Leo-based systems will allow the use of lighter and cheaper portable equipment.

However, Leos do have some disadvantages. They are solar powered and since they spend more time in shadow they have a much shorter lifespan than Geos – about five years compared with 10-12 – and they are much less powerful so more of them are needed although that may generate economies of scale in satellite production.

Currently there are five US groups proposing Leo-based telecommunications systems. The best known, and probably the most ambitious, is the proposed $3.4bn Iridium system, lead by Motorola.

The others are Constellation Communications with Aries, Ellipsat (Ellipso), Loral Qualcomm Satellite Services (Global star), and TRW Space and Electronics (Odyssey).

A sixth group, American Mobile Satellite (AMS), a joint venture between McCaw, Hughes and MTEL, already has a geostationary satellite system in operation. However, it only has a *few hundred subscribers* and just covers North America.

The other companies, with more ambitious plans for worldwide service, *hope to begin operations* in 1996 or 1997. The number of satellites in each system or "constellation" varies. Motorola's Iridium would have 66, Aries 48, Ellipso 24, Globalstar 48 and Odyssey 12. The cost estimates also vary dramatically from a minimum of $200m to more than $3bn.

All except Ellipso would use circular orbits but Ellipso's satellites, as its name suggests, would use elliptical orbits which the group claims will provide significant advantages including longer coverage of key markets using fewer satellites.

The targeted subscriber base also varies considerably. Motorola predicts about 2m customers for Iridium by the turn of the century including about 700,000 subscribers for data alone. Motorola expects to charge between $2,000 and $3,000 for handsets and about $3 a minute for calls.

Some systems such as Odessey could handle up to 16m subscribers, but most of the groups are basing their costings on much more conservative estimates. Even so, some analysts such as Mr Dean Eyers of Dataquest, question whether they can make economic sense as a mass market voice telecommunications delivery system.

However, most of the Leo systems *would also be used to provide other* high value services including data communications and radio tracking.

Even then their backers face some formidable cost and other problems. One unresolved issue is about how to regulate Leo operators – an issue which is exercising the European Commission. Other issues, such as deciding which frequencies to allocate to Leos, have already been agreed in principle.

But perhaps the biggest problem is the apparent potential oversupply of satellite system operators, a problem which is not eased by Inmarsat's own plans for a new $2bn satellite-based global mobile telecommunications service designated Project 21.

Most analysts believe there is probably only room for two new Leo-based services.

What does seem certain, however, is that the dream of a universal mobile telecommunications service will move a step closer with the launch of new satellite-based global mobile systems.

Paul Taylor

■ Value-added services: Packet-switched and other data services

Changing habits of a lifetime

Telecommunications and computer companies are running around like headless chickens in an attempt to find the right mixture of products and services to meet the surge in demand for linking together networks of personal computers.

It would have been inconceivable 10 years ago to have a telephone company moving at the pace of a one-legged chicken, let alone a headless one, to meet its customers' needs. But data communications, along with mobile communications, are the two services which the European Commission has mandated member states to open to competition.

Telephone companies are having to change their habits of a lifetime because unless they innovate, smaller, more dynamic companies will become the main drivers of the market.

A new range of products and *services is emerging to meet* the growth in networking and internetworking. Large companies are demanding solutions to improve their ability to interconnect ever-growing numbers of local area networks (Lans) pieced together on different geographical sites. Lans are proliferating as companies switch critical applications from the mainframe computer to personal computers. Lans traffic is increasing at a rate of 30 per cent a year.

There is no single solution for interconnecting Lans. In the past, a corporate telecommunications manager has tended to use private circuits. But running them internally can prove very difficult. Most local area networks have been pieced together over several years and vary widely in size, capacity and in technical characteristics.

Many companies would prefer to hand their business over to a public network. Traditional X.25 packet-switched data networks are one possibility, but high prices across Europe, coupled with uncertainty about whether X.25 can meet current and future *requirements for high bandwidth services*, are causing many to delay their decision.

Telephone and computer companies are now developing products known as fast-packet switching services. In some *cases, they are offering* improved, higher speed versions of X.25. But the real revolution in the data communications industry is the development of the much-trumpeted frame relay, a slimmed-down version of X.25.

There are already several hundred users of frame relay in the US where it was developed. Judging by the interest in frame relay from telephone companies in Europe, there is an expectation that it will have a similar impression this side of the Atlantic. France Telecom and Swedish Telecom are already providing frame relay interfaces to their X.25 networks.

Deutsche Telecom, Telecom Denmark and Spain's Telefonica all plan to launch services this year, while in Finland and the UK public frame relay services are already available.

But despite the public enthusiasm *of European telephone* operators, they are privately cautious about promoting services to compete with their existing X.25 and private circuits services. Yankee Group Europe, a leading telecommunications consultancy, says that the mood of European vendors and operators looking at frame relay is to "wait and see." Nevertheless, Yankee Group expects frame relay to see "significant growth in Europe's nascent cross-border data transport market over the next three years."

Frame relay is simpler than X.25 and its lower cost is one of the main reasons why the Yankee Group expects it to *break through in Europe. In* the longer term, its faster speed will be an advantage. Laboratory tests show that frame relay can run at up to 45 megabits per second; much higher than the 2 megabits *commonly thought to be the* practical ceiling for standard X.25. In practice, no operators offer frame relay at more than 2 megabits but this is still much quicker than most existing X.25 networks in Europe.

Ranco Europe, a supplier of components to the vehicle and domestic appliance sectors, chose frame relay for its pan-European network because of its speed. Its existing IBM-managed network service operates at a maximum of 19.2 kilobits per second which is not fast enough for Ranco's plans to develop just-in-time manufacturing.

Ranco's customers want deliveries to arrive at the pre*cise times the products* will be used and thereby avoid costly *storage. By consolidating* information on orders, sales, shipments and stocks on one frame relay network, Ranco can better meet tight delivery schedules.

Lucrative Pan-European contracts such as Ranco Europe's are a big draw for leading value-added network operators such as Infonet, Sprint and American Telephone and Telegraph. This market is set to increase sharply with the ending of restrictions on competition in Europe at the start of this year.

But there will be less competition for smaller domestic contracts where companies need to invest in networks linking *together* the largest towns and cities. Yankee Group believes that BT and Transpac – a wholly-owned France Telecom subsidiary – are the two companies best positioned *to capitalise on* pent-up demand in Europe's domestic markets for high speed data services.

BT inherited its European presence from Tymnet, the US data communications company it bought in 1989. It has built on this and now has a formidable frame relay presence in all big western European cities. Transpac is concentrating on X.25. It has bought private X.25 networks in six European countries and converted them into an extensive European infrastructure.

Transpac has fought a rearguard action against frame relay, which, it says is unsafe because there is no guarantee that the data will arrive in one piece. But Transpac is looking closely at another fast packet technology called *Asynchronous Transfer Mode* (ATM) which has the potential to handle large volumes of data more smoothly than its cumbersome name suggests.

A number of little-known US and UK vendors such as Cisco, Synoptics, Fibrenet, Wellfleet, Network Equipment Technologies and Netcomm are rushing *to supply ATM products for* the private Lan interconnection market.

The jury is still out on whether X.25, frame relay or ATM emerge as the leading technologies for data networking. But the telecommunications industry is in no doubt that the sector as a whole will explode over the next few years. US telecommunications consultancy Frost and Sullivan, for example, forecasts that the market for fast packet switching will rise from $74m in 1992 to $2bn by 1997.

Mark Newman

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■ Value-added services: EDI and electronic mail

Faster, cheaper, more reliable

THE paperless office remains a dream that seems to slip ever further into the future. Nevertheless, the growth of electronic trading, using electronic data interchange (EDI) and electronic mail, is having a *profound effect on a growing number of business* and other users.

EDI is a value-added telecommunications network service which enables two organisations, usually customer and supplier, to exchange routine business documentation such as orders and invoices using standard electronic forms and their own computers linked through a service provider.

It is often a faster, cheaper and more reliable means of exchanging information than the traditional paper-based business transaction and can play a crucial role in automating a transaction chain.

For example Tesco, one of the pioneers of EDI use in the UK, has automated its entire transaction chain of recording sales, amending and checking stock records, re-ordering goods, receiving and checking invoices and making payments.

By reducing the time taken to process a transaction, manufacturing companies and retailers can reduce their level of stocks and adopt management techniques such as just-in-time inventory control.

Trading information electronically can also help suppliers and their customers match their operations more closely to sales patterns and other variables, and lead to a closer "partnership" between supplier and customer.

EDI also automatically sets up an "audit trail" which enables an organisation to check and validate electronic documentation.

These benefits have spurred growth in the use of EDI in the US, where it originated, and in the UK which leads Europe in EDI usage in the private sector, although France has made a co-ordinated effort since 1989 to implement EDI in the public sector.

In other countries such as Germany and Japan, electronic trading does take place domestically but is limited because the systems depend on non-standard software implementations or industry-based proprietary systems which are not interconnected.

About 7,000 companies and other organisations in Britain are estimated to be *using electronic trading* and the number is growing by between 20 and 30 per cent a year. But there is still much room for growth. Some recent estimates have suggested that less than 5 per cent of business transactions in the UK are currently handled by EDI. Of the top 1,000 companies, roughly 300 use EDI.

International Network Services (INS) is the biggest of the UK-based EDI services providers with more than 55 per cent of the market and a 35 per cent share of the overall European market.

INS, jointly owned by ICL and GEIS, the US-based network services company, provides three main EDI "communities", INS-Tradanet, the main service for retailers and their suppliers, Brokernet for the insurance sector and Fleetnet for the fleet leasing-management sector.

Its nearly 4,500 UK corporate customers cover 35 market sectors and include 78 of the top 100 UK companies, nine of the top 10 retailers, the 10 largest pharmaceuticals companies, 17 of the top 20 non-life insurers and four clearing banks. Altogether 15,000 organisations worldwide use its network services which link 100 countries and 750 cities.

INS-Tradanet handles more than 6m documents *a month* and *Mr Lee Tate*, INS managing director, says the group signed more than 1,100 new companies up for the service last year. However he acknowledges that the market is becoming more competitive.

"The competition is much tougher," he says. Other EDI network service suppliers in the UK include ATT-Istel, IBM and, since October 1991, British Telecom. In response, INS has dropped its prices. "We are going after higher volumes," says Mr Tate.

The price cuts were designed primarily to encourage small companies to adopt EDI

Earlier this year, INS cut its charges following price changes by competitors in 1992. A basic start-up package including Intercept-Plus PC software, joining fee and 12 months usage of INS-Tradanet now costs £1,450.

The price cuts were designed primarily to encourage small companies to adopt EDI. A new "unbundled approach" to charges means that companies wishing to exchange documents with a single trading partner can buy a minimum package at the outset and then take advantage of the integrated INS-Mail facility to add features as their EDI usage develops.

Companies use these EDI service suppliers because they provide a central "post office" function, directing message traffic to the appropriate recipient and providing any "data translation" needed between different computers or message standards.

Service suppliers, software companies and even the big *EDI trading partners* offer software packages which handle links into the different services and the conversion of data from business systems into the correct message format standards.

UK sectors which have pioneered the use of EDI include the motor and electronics industries and the retail trade, particularly the supermarket chains, and in the financial services sector, the insurance industry.

EDI is a relatively new value added service – INS, for example, was only set up in 1985. Nevertheless some key trends have already emerged.

In particular, EDI is becoming far more international. There is an increasing use of Edifact, EDI for Administration, Commerce and Transport, an emerging group of international message standards which avoids the need for conversion from one national or industry standard to another.

Between 15 and 20 per cent of INS's customers now have international links. For example, retailers, led by Tesco and Boots which have developed extensive domestic supplier networks using EDI, are now doing the same with overseas suppliers.

In addition, Mr Tate says that a large number of countries are beginning to set up EDI services in their own right, often using the software and technical know-how of established EDI players such as INS, IBM and BT.

For example, INS has franchised local companies in Ireland, Northern Ireland, Portugal and South Africa to operate the INS-Tradanet service locally and is negotiating other deals in Malaysia, Taiwan and with the PTT in India. Other UK-based service providers have franchised operations in Singapore and Korea.

"Our software runs under Unix so we can put it onto any hardware platform," says Mr Tate. The system in Ireland, for example, runs on an IBM RS6000 but INS is working with Unisys in south-east Asia and with Hewlett-Packard in India. In Ireland, Portugal and India, where the franchisee is the local PTT, the service runs, or will run, over their own networks. In other cases, for example South Africa, it is delivered via a managed network.

EDI users are also becoming increasingly sophisticated. Originally, EDI tended to be used only for basic transactions such as ordering and invoicing. However, as familiarity with electronic trading has grown, so has the range of information transmitted over EDI links.

Tesco now exchanges 13-week sales forecasts with a quarter of the 1,200 suppliers which trade with it electronically. Tesco has also started communicating with individuals in its supplier companies through the INS electronic mail service. There are 4,000 electronic mail users in Tesco and they can communicate with 3,000 contacts in 200 suppliers.

EDI is also being integrated with existing internal electronic mail systems and other computer applications. Using EDI in this way enables a customer to link two incompatible Email systems, for example in different departments or divisions of the same company.

Finally, EDI is gradually reaching a wider audience including government departments such as the Education Department and HMSO in the UK, and new sectors such as the book industry.

Paul Taylor

The Holy Grail of communications technology for business is the so-called "ideal desktop" wherein a data workstation also serves as a networked video terminal to provide real-time interactive audio, full-motion, high-quality video, animation, spreadsheet, database, telecommunications, document processing and other applications – all on the same screen.

Interest in such networked multi-media applications is running high and significant developments in software, hardware integration and switched network accessibility are expected to make them attractive as strategic business tools between now and the year 2000.

The bugbear is that multi-media and the other emergent telecoms technologies are bandwidth-hungry. Broadband is expensive and must therefore be capable of instantaneous allocation on demand rather than being dedicated to any particular users or applications. It seems probable that specific sectors of business will take up broadband before the telecommunications community as a whole, probably with Lan-to-Lan and Lan-to-Wan interconnectivity driving the market in the first instance.

At the same time, European businesses are widening their corporate communications bandwidth as computerisation becomes ever more ubiquitous. Ironically, the recession has also spurred technological change with many organisations re-defining and streamlining themselves into co-operating networks of smaller and more efficient units.

■ Cable telephony: What's possible

Interest is running high


Optical fibre trials in Bishops Stortford, Hertfordshire: Replacing copper with fibre optics is a massive and enormously expensive undertaking

Replacing copper with fibre optics is a massive and enormously expensive undertaking. In fact, widespread deployment of universal broadband networks based on optical fibre to business and residential users will not begin in Europe until after the turn of the millennium. Industry experts generally agree that it will not be fully completed until the end of the second decade of the next century or even later.

This, combined with the investment already made in copper cabling, will ensure that conventional coaxial or twisted pair-type wiring will co-exist with a growing fibre optic infrastructure for many years.

Copper cable is still being installed and the bandwidth capabilities of traditional wiring systems are being enhanced. For example, two new services just introduced in the US, High Bit Rate Digital Subscriber Line (HDSL) and Asymmetrical Digital Subscriber Line (ADSL), are capable of transmitting high levels of data over non-repeated twisted-pair copper cable. Field trials of copper-transported television are also under way using ADSL technology.

Nevertheless, optical fibres have several advantages over copper. These include a significantly greater data capacity – the FDDI standard calls for a data rate of 100Mbit/s compared with Ethernet at 10Mbit/s and token ring at 4 or 16 Mbit/s – enhanced network security and immunity to electronic noise. They also allow a greater distance between stations and nodes. The FDDI specifies that stations can be 2km apart using multi-mode fibre or up to 40km with the latest mono-mode cable, with a total network coverage of up to 100km. Over the past few years, single mode fibre has emerged as the popular "fibre of choice" and new developments, such as a cladding glass layer that contains a titanium oxide dopant, have produced a particularly tough, durable and reliable medium.

However, fibre optics also have their drawbacks. For example, every 22 miles the light signal must be converted back to electronic pulses, amplified and then regenerated as a light signal once more. This slows transmission, and it is these staging points and other electronic pathways at either end of the optic fibre link that dictate maximum signal transmission speeds and cause data bottlenecks.

This could soon be about to change. Some eight years ago scientists of the Optical Fibre Group at Southampton University showed that optical fibre cores doped with the rare earth, erbium, were more reliable and efficient. Later work has demonstrated that erbium doping facilitates almost perfect light amplification and erbium amplification systems have been tested to a distance of 100m kilometres with minimal signal attenuation and complete data integrity reported.

The ramifications are enormous. With optical switches installed at the exchanges there will be no electronics to delay signals and communication at very close to the speed of light will be possible. Not only that, some 25 THz (25,000 GHz) of very cheap bandwidth would be instantly available on demand – more than enough to cope with any planned or imaginable application for any business of any size.

Erbium amplified systems have been specified for several new long-haul submarine cables and also for various terrestrial networks. Some will be in place before the end of the century.

Today's fibre optic networks are lit. That is to say telcos provide the fibre optic infrastructure plus the services that run over it – and garner revenue from both. In future we will see dark fibre systems where the end user will decide what applications and services to operate and also provide them. A telco would then be in a similar position to that a of utility company today – providing a pipeline service, but unable to dictate what is to be connected to it, how equipment is to be used, when or by whom.

With BT and other suppliers forbidden to provide home entertainment services over their networks until 2001, the economics of deploying fibre optics is being distorted by a rigged market. In a free market, BT and its rivals could generate additional revenues from entertainment services and use them to offset at least some of the huge costs involved in laying a fibre optic infrastructure. Businesses, because they need faster and better communications, will determine when and where the new broadband systems are built. They will deploy the new technology because, in the end, they cannot afford not to.

Martyn Warwick

The author is deputy editor of Communications International magazine


This prototype submarine repeater uses optical amplifiers and fibre doped with erbium which facilitates almost perfect light amplification

■ Cable telephony: What's happening

Evolution rather than revolution

IN the brave new world of deregulated, liberalised, privatised and competitive telecommunications, many new services and applications are the direct result of actual market demand.

The days are long gone when a monolithic PTT could present a captive business user base with an expensive new technological development that might have no relevance to real market needs.

Today, business users judge the potential of telecoms applications in terms of just what practical benefit they can bring to their organisations. They can choose from a plethora of new technologies, all with their attendant benefits and some occasional, and rather less well-publicised, disadvantages.

Telecoms and datacoms are converging to the point where it is difficult to tell them apart. It is now possible to have digital audio, video and data applications delivered straight to the desk-top via the public switched telephone network, a PBX, leased lines, microwave links, satellites, fibre optics, radio and Lans, Mans or Wans. However, despite the strong growth of broadband fibre optic cabled systems, most telecommunication still goes over copper wire at some point during its transmission.

Many of the new technologies have been designed to provide enhanced bandwidth on existing cables and a big attraction is that they protect the large investments already made in conventionally cabled infrastructures. For example, High Speed Digital Subscriber Loop (HDSL) enables 1.544Mbit/s to be delivered over existing copper pair wires and industry analysts believe that such services will find a ready market in Europe.

Regulatory issues are forestalling the development of the pan-European and cross-border carrier systems that are vital to development of business in the European single market. Very Small Aperture Terminal (Vsat) and other satellites services have been particularly badly affected.

Practical Lan-to-Lan and Lan-to-Wan interconnect applications are very popular in business and there has been a concerted drive throughout the EC to deploy frame relay services for packet switched data communications. In fact, frame relay, a relatively simple and inexpensive broadband technology, is seen as a viable long-distance data carrier for pan-European corporate networks in the very near future.

ISDN, on the other hand, long touted as the ideal universal telecommunications solution, has not yet proved to be as popular as expected. Take-up of the basic rate service has been slow and, until recently, there were very few ISDN products on the market. Nevertheless, ISDN has made possible the development of intelligent cell processing software in switches and advanced signalling systems such as C7, DASS and DPNSS.

In 1988, the CCITT published the basic principles of broadband networking; B-ISDN. The main feature of the B-ISDN concept is the support of a wide range of audio, video, data and image applications on the same network. The target transfer mode for broadband ISDN is the Asynchronous Transfer Mode (ATM) a technique whereby digitised information is inserted in small, fixed-length cells for transmission and switching through a network.

ATM, a derivative of fast packet switching technology, can carry all types of information in a common format and provide the high throughput needed for emerging broadband applications. Potentially enormous matrix-style cell switches, which do not suffer the bandwidth constraints imposed by shared media switching techniques, can be built to handle multi-media traffic.

The time taken for Lan devices to process data is called latency. ATM can handle real-time signals with close-to-zero latency because the switch reads the packet address and sends it to its correct destination, probably before the end of the message has even left the originating device. Sheer speed such as this allows ATM to handle delay-sensitive traffic such as voice and video, as well as data.

ATM is on trial throughout Europe now and indications are that it meets current communications needs, can carry the new video and multi-media applications well and also has the sufficient potential to cope with any likely future services.

Another technology is Synchronous Digital Hierarchy (SDH) which is a new flexible transmission standard defined by the CCITT. It defines a new type of frame structure for data transport that creates additional transmission capacity and a new structure for handling different data channels. Development and trials of SDH continues but it is unlikely to be directly connected to customer sites much before 1997.

Many organisations are continuing with the private networking arrangements that were first established in the 1980s. They typically involve managed bandwidth networks supporting distinct voice and data applications and telcos continue to provide leased bandwidth, in the form of private circuits, to support these architectures.

Virtual Private Networks are more flexible, provide more capacity, and are generally cheaper

However, Virtual Private Networks (VPNs) are more flexible, provide more capacity, and are generally cheaper. The latest popular architecture is a hybrid of traditional private and VPN facilities. It seems likely that voice applications will move to VPNs together with lower bandwidth data services. New higher bandwidth services will stay on private dedicated platforms until frame relay services such as ATM become available.

Business organisations are demanding skilled, fast and responsive management of their increasingly complex networking environments. BT, Mercury and other telecoms companies could find an additional source of revenue by providing network management services in which they would be responsible for much of the day-to-day running of someone else's corporate network.

Perceived corporate benefits rather than the technology itself now determine the direction that business telecommunications services are taking. Users generally prefer evolution to revolution and they want new applications and products to work with existing equipment, smooth integration into existing networks, and interoperability with products from other, different vendors.

This has to be achieved at reasonable cost. They do not want unnecessary added complexity, high investment costs, and esoteric new network management platforms.

Vendors and service suppliers had things their own way for a long time. Customer-centred organisations who can make telecoms easier, simpler, faster and cheaper for the users will be successful. Those that cannot deserve to fail.

Martyn Warwick

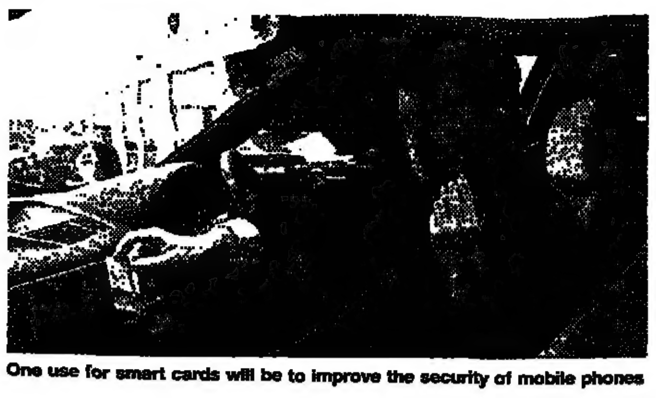
How many uses are there for a smart card? Almost as many as for the computer chips which sit inside these credit card-style devices. Potential uses range from keeping networks secure to helping inept cooks – just plug your smart card into the computer and it tells you what to do and even controls special kitchen scales.

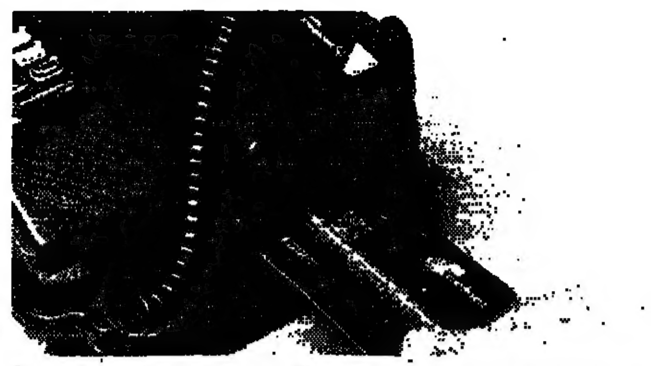
Despite the possibilities, smart cards have failed to live up to optimistic forecasts of suppliers and market analysts who said they would replace magnetic strip cards for bank customers and be in widespread use by the 1990s. One reason this has not happened is cost. Even when bought in bulk smart cards cost about £5 each instead of 40p for a magnetic card.

The UK has lagged behind in the take-up of smart cards. In France, they are used for phone cards. In some Belgian banks, such as the state-owned ASLK, customers carry a personal smart card. This is swiped through the teller's terminal to check the customer's identity. Once this is established the customer can get the same service at any of the bank's 1,249 branches.

However, worries about bank and charge-card security are generating new interest in smart cards around the world. The drawback of magnetic cards is that they can be forged using fairly low-cost equipment. There have been several well-publicised cases of counterfeit cards being used to steal money from cash machines.

In Singapore, the government is considering basing the identity cards that all citizens must carry on smart cards.


One use for smart cards will be to improve the security of mobile phones


Smart cards will help to prevent illegal use of new GSM digital mobiles

■ SMART CARDS

UK lags behind in take-up

The technology could also be used for their banking transactions.

Card forgery is a growing international problem and the advantage of smart cards is that they are harder to reproduce. They can also benefit the customer. For example, because smart cards contain a computer memory, they can store a list of transactions. A customer could keep a record of cash withdrawals without having a wallet bulging with ATM (Automated Teller Machine) receipts.

This could be checked from time to time at the cash machine itself, or perhaps on a small card reader usable at home. It might even be possible to load information from the smart card into a home computer and use it to update a spreadsheet of domestic finances. However, there are other ways of making bank cards more secure. For example, some banks and building societies are embedding photographs into their charge cards.

One of the newest plans for smart-card use also concerns security. They will be used in the forthcoming GSM digital mobile phone network to cut illegal use of mobile phones. Users will have to insert a card and tap in a personal identity number before they will be able to use their phones. Without the card, the phone will be useless and cards reported as stolen will be cancelled. This could make mobile phone theft a thing of the past. More than one card will work with a single GSM phone to enable separate business and social use.

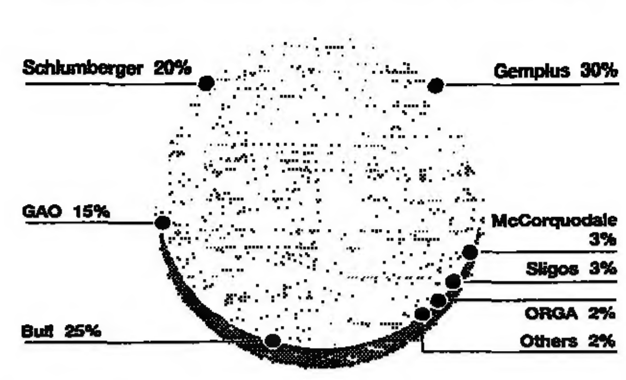
There is also talk of using smart cards to pay UK road tolls if the British government's idea of introducing selective road charging goes ahead. GEC Marconi is testing a system called Timezone in which an electronic unit is activated by a beacon as the motorist enters a toll area. The toll is then debited from a smart card. The system is to go on trial in Richmond upon Thames. GEC says it lets the traffic flow because cars do not have to stop as they pass the beacon.

Another breed of smart cards which is particularly well-suited for transport use is the "contactless" smart card. Demand for these is growing exponentially, according to Mr John Meikle, sales manager of GEC Card Technology. The cards work when they are brought within a few centimetres of a reader device, making them easy for drivers to use.

Contactless cards are also useful for those who prefer to take public transport. The Greater Manchester Passenger Transport Executive is to issue contactless cards developed by GEC Card Technology of Walsall, England to its passengers. A similar, less ambitious scheme, using GEC cards, will begin testing with London Buses in Harrow in July. Another is planned for Oslo.

To begin with, the Manchester scheme will involve 500,000 cards to be used on the city's 2,700 buses plus the "Metrolink" and rail systems. The cards will act as prepaid tickets, usable many times. Each time the passenger makes a journey, the fare will be deducted from the card as he or she boards the bus. The cards will prevent delays caused by people fumbling for the right change because they can be read through wallets or purses. Customers will be able to get a print-out of their last 20 journeys and the transport executive will get better information about travel patterns.

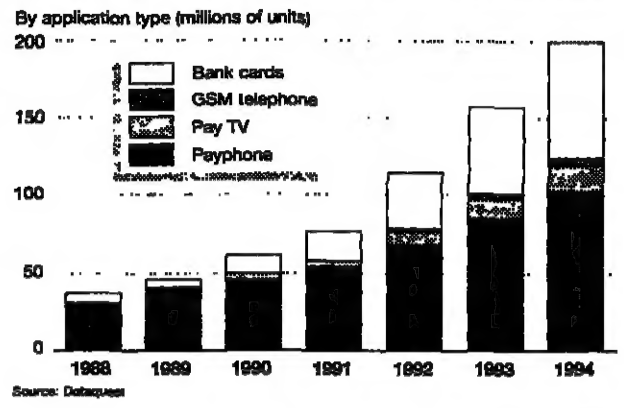
1992 European smart card market share



Source: Dataquest

Estimated European smart card production

By application type (millions of units)



Source: Dataquest

The transport executive is also talking to retail outlets about the possibility of renting out memory space on its smart cards. This would enable passengers to use the card for buying such items as petrol or their morning paper. The cards are rechargeable and can be topped up at selected post offices and newsagents.

One of the biggest applications for smart cards is in network security. Northern Telecom's European research arm, BNR Europe, uses a metal-encased smart card from US company Security Dynamics to prevent computer hackers stealing valuable research information from its computers.

Mr Andy Macpherson of BNR Europe says it has bought 40 of the company's SecureID cards and plans to order more. They provide a way of restricting access to the company's network without giving travelling executives a lot of extra gadgets (such as card readers) to carry.

To access the computer from a hotel room, for example, an executive types in his ID and a password. If he or she gets this right, the computer will request a passcode number. This is a random number generated by the SecureID card and the numbers change every 60 seconds. Without the passcode number the user cannot log on.

Mr Jim Geary, of Security Dynamics in the UK, says the cards are also used by several telecoms companies, such as American Telephone and Telegraph (itself a maker of smart cards) to prevent fraudulent access to their networks. For example, customers of BT's Global Network Services data network can opt to use SecureID to provide an extra level of security for their computer systems.

Smart cards can also be used to improve the in-house security of computers. In its headquarters in Lisle, CTR Nord-Est – a regional clearing centre for the savings banks of northern France – has personal computers with built-in card readers. Without inserting the correct smart card, users cannot log on to its clearing system.

Joia Shillingford

The author is editor of the FT newsletter Business Computing Brief

■ Video dial-up services

An interesting battle looms

The UK has two fundamental networks: telephone and television. All others, apart from a few specialised satellite, microwave or cable based-systems, are either adaptations or extensions to one or other of the two base models.

The success of satellite-broadcast TV services and the few, scattered, cable TV networks that are available here is helping to foster demand, led mainly by domestic consumers – but business and academia is interested as well – for new entertainment and information TV services.

Just as telecommunications, datacommunications and computer applications are converging to the point where it is practically impossible to tell them apart, so the telephone and television networks have significant, and growing, areas where their interests and capabilities overlap.

For example, as more and more of the UK is cabled for multi-channel TV, it will be a technologically simple matter for the cable companies to provide access to the public switched telephone network over their TV cable and so compete, head on, with the likes of BT.

Similarly, the technology now exists to permit high bandwidth video to be transmitted over existing copper-cabled telephone networks as well as on new fibre optic lines, putting telephone companies in direct competition with the cable TV businesses. The telephone system also has the supporting infrastructure to handle switched or on-demand applications, and the capability to bill for services rendered.

After more than 10 years of duopoly competition, telephone bills in the UK remain uncompromisingly high. Individual and business subscribers may complain about the size of their quarterly accounts but these are also regarded in very much the same light as death and taxation: unfortunate but inevitable.

Video dial tone networks will allow telephone companies to provide information, education, medical, banking, catalogue shopping – and home entertainment services such as cable television, pay-per-view channels, interactive learning and true video-on-demand. They will all have to be paid for.

Most research and development work in video dial tone has taken place in the US where the both the regulatory environment and the market is more conducive to the deployment of such interesting new services.

The situation in the UK is somewhat different, cable TV is far from ubiquitous here and legislative strictures are preventing the biggest potential players in the market, the telephone companies, from competing with the cable companies.

The government, allegedly to allow infant cable TV companies time to grow up, has forbidden both BT and Mercury to provide home entertainment services over their networks until 2001.

BT attempted to pilot video-on-demand services in East Anglia but the Cable TV Association (CTA) successfully contended that video-on-demand effectively constituted entertainment delivery.

The argument hinges on just what constitutes broadcast entertainment. Television is a one-to-many medium that can provide a minimal degree of interaction via teletext type services.

Telephony is a one-to-one medium, (except for business-based audio and videoconferencing services) that by its very nature is full duplex and therefore has the potential to be made highly interactive. The question is, is it broadcast?

The user can make or receive telephone calls over the same copper pair without affecting the digital transmission channels

Wrangles such as this nicely illustrate how shortsighted and counterproductive it can be to make arbitrary rulings on how, when, where and why a technology may be deployed while that technology is still actually being developed.

From the technology angle, subscriber transport of video signals can be achieved over existing copper loops using Asymmetrical Digital Subscriber Line (ADSL), fibre in the loop (FTTL) or hybrid fibre-coaxial cable distribution networks.

ADSL is the transport link that will allow local exchange carriers to use existing copper wires to deliver broadband services that provide high-speed data, digital audio and video to the home or business.

It can carry a one-way transmission of a bit-stream up to 6Mbp/s from the public network to customers, while at the same time providing an interactive control bit stream from the individual customer back to the network; and still retain the use of the copper pair as the plain old telephone system (POTS) line.

Asymmetric refers to the difference in bit rate between the two directions of transmission.

When ADSL was first proposed, in the US in 1989, there were two competing technologies that seemed to be capable of delivering the 1.5Mbit/s service – as it was then envisioned – over the installed copper base. These were Quadrature Amplitude Modulation (QAM) and Discrete Multi-Tone (DMT) which is also known as multicarrier.

Further research and development showed that DMT was capable of providing high-quality performance at speeds in excess of 6 Mbit/s.

It does this by dividing available bandwidth into 256 channels and uses digital signal processing to dynamically adjust parameters as necessary to minimise errors and crosstalk.

DMT technology supports four "A" channels at 1.5 Mbit/s, each of which may carry a video signal of VCR quality, or two channels can be merged to carry a high-quality, outside broadcast-type real-time video signal. For the future, all four channels operating in concert will be able to transport an extended definition TV signal.

DMT also carries a 384Kbit/s ISDN channel which can be used to access to corporate LANs for teleworking applications using a frame relay service.

A further basic rate ISDN channel is supplied, which contains two 64 Kbit/s "B" channels and a single 16Kbit/s "D" channel.

Along with these comes a signalling-control channel, again operating at 16Kbit/s, which allows the user VCR-type controls over what is being shown on the "A" channels.

Control options include all the usual video recorder functions such as search, pause, reverse and fast-forward. A separate embedded operations channel permits internal system maintenance, monitoring, audit, telephone company administration and billing functions.

Finally, the user can make or receive telephone calls over the same copper pair without affecting the digital transmission channels just described. What is more, because the ADSL is passively coupled to the POTS line, the subscriber's POTS capability is unimpaired even in the unlikely event of a systems failure.

Taken together, these channels provide an aggregate transmission rate of close on 7Mbit/s that could take remarkable new broadband services direct to the home over existing copper cabling.

Video dial tone also requires an interactive system that must permit automated, random access media-independent storage and retrieval capabilities.

Sophisticated software must process subscriber requests and must provide subscriber interactive services, network interface support, robotics and drive control, statistical and accounting functions and video library and shelf management routines.

It is anticipated that such an automated system will deliver any video selection or other service, in less than 10 seconds, from a library of 10,000 to 15,000 titles.

Given the massive installed base of copper cable and the comparative expense of laying fibre optics, it seems likely that those systems that can exploit copper as a transmission medium will win a large share of the potentially huge video-on-demand market in the short and medium term.

Fibre will continue to be deployed and can carry more services than wire, but fibre to the home is a long-term prospect whereas fibre to the workplace is with us now.

The battle between the established and emergent telephone and TV interests could well be more interesting than some of the programmes on the box.

Martyn Warwick

■ OUTSOURCING

The telecoms revolution

One of the main tenets of modern management theory is that business organisations operate most effectively when they focus on those core operations where they have special expertise – and buy-in the other services which they require.

Services ranging from catering to data processing and even manufacturing are now "outsourced" by companies and increasingly by government departments on both sides of the Atlantic.

Beginning in the 1970s, many companies built their own telecommunications networks for voice or data or a mixture of the two and installed complex private branch exchanges (PBXs). But today many large customers are either asking outsiders to manage their networks, or buying-in the sophisticated telecommunications facilities and network services which they need.

Several other factors are also pushing companies towards the outsourcing solution for their telecommunications requirements in the 1990s. Among these are the growing complexity of telecommunications services, the rapid pace of technological change, the increasingly global nature of business, and the liberalisation of telecommunication regimes.

Liberalisation is leading to increasing competition between established network operators and a proliferation of service offerings for corporate clients.

These range from relatively simple value-added services such as automated facsimile "exchanges" to complex full outsourcing contracts where a contractor is responsible for providing a wide range of flexible telecommunications services to a customer on a national or international basis in what is generally viewed as a "partnership" arrangement. Sometimes these outsourcing arrangements will involve the customer transferring assets and staff to the contractor.

There are several main categories of bought-in service on offer, although the dividing lines between them are blurred. They include:

- Centrex, where the features of a conventional company PBX – such as desk-to-desk dialing – are provided by the network operator who partitions off part of the public telephone exchange to act as a customer's office telephone system. The customer then usually pays a regular fixed sum for the exchange equipment used and a variable increment for the calls made, but avoids the need for substantial capital investment.

Centrex services have been available in the US since the early 1980s, but have been much slower to develop in Europe. "Centrex in the US is quite a substantial revenue earner (for the network operators), but in Europe it is only really available in the UK and Sweden," says Ms Cathy Borrows, an industry analyst with Dataquest. In the UK, Mercury and BT have both begun to offer centrex services.

- Managed Network Services (MNS), where most or all of the day-to-day running of a corporate voice or data network (Managed Data Network) is undertaken by an outside contractor.

These services are offered in the UK by a wide range of companies including the two domestic network operators and international competitors such as AT&T. For example, Mercury offers its Telecommunications Facilities Management Service under which Mercury staff supervise, operate and maintain a corporate network and provide round-the-clock technical support.

- Virtual Private Networks (VPNs), where the features and functionality of a private network based on leased circuits are provided instead on the public telephone network on a national or international basis.

VPNs are one of the fastest growth areas in business telecommunications

At its simplest, a VPN offers businesses a way to link the switchboards on different office sites – even if they are in different countries – without having the expense of installing and running their own private network.

VPNs are one of the fastest growth areas in business telecommunications. A recent report by Ovum, the telecommunications consultancy, predicted that VPN "will revolutionise business communications in the 1990s." The authors predicted that by 1997 the market for national VPNs in Europe and the US will be worth $12.5bn for voice and $1.2bn for data.

By the same date they forecast that international VPNs will comprise 21 per cent of telcos' international revenue, amounting to $2.3bn for voice and $500m for data.

The growing popularity of VPNs reflects the fact that both sides of the communications industry – supplier and customer – stand to gain. "VPN gives users a better combination of cost and flexibility than any other service, while for the telcos it offers the opportunity to increase market share and reduce networking costs."

From the customer point of view the advantage is not just one of cost, although often there can be substantial savings. One significant advantage offered by a VPN is that it can be reconfigured rapidly to meet the customer's changing requirements. "Resources can be added to the system very quickly," says Ms Borrows.

Network operators are keen to provide VPN services because they are cheaper to provide than leased lines, they enable network operators to "capture" the outsourcing revenues of private networks, and they provide a commercial justification for building "intelligent" network infrastructure. VPNs also offer the chance to increase market share by winning lucrative corporate business and new international business.

In the US the three inter-exchange carriers, US Sprint, AT&T and MCI, introduced VPN services for voice in the mid-1980s. Since then, VPNs have become the dominant service offering of the carriers to large corporations and almost all of the top 1,000 companies use the service, as do many smaller organisations.

But they are still quite rare in Europe. In Britain, VPN services so far have mainly been aimed at the large national and multinational companies. However, increasing competition between Mercury and BT, particularly for the big business customers, and tariff re-balancing in the late 1980s which changed the economics of private leased circuits in the UK has helped stimulate interest in VPNs.

The recession also focused management attention on what Mr David Sexton, customer director for managed network services at Mercury, calls "sticking to the knitting." He also suggests that because we are entering a period of "technology churn" corporate users are more inclined to turn to outside service providers rather than risk investment in rapidly changing technology.

"Customers have been looking very closely at what they want to provide and manage," he says. "For some it will remain economic for them to continue to operate their own networks." But for a substantial proportion he believes Centrex, VPN or full outsourcing will make sense.

Both Mercury and BT have invested heavily in recent years in providing both national and global VPN services. Mercury, in conjunction with its parent, Cable & Wireless, and partners such as US Sprint, provides an end-to-end service under the GVPN banner and BT provides a global service called International FeatureNet service which was launched in 1990 and offers on-network connections to the US VPNs and off-network connections to a number of other countries.

In Britain, BT's VPN service is called FeatureNet 5000. One of its latest customers is Saga, the UK-based international travel and financial services group. Saga's new system includes a VPN and an automatic call distribution (ACD) system providing digital switching technology to handle domestic dial-up calls and most of the voice and data traffic that would normally require dedicated leased lines.

Saga can increase or reduce call capacity at two hours' notice, for example to accommodate extra traffic generated by marketing activity.

Meanwhile, Mercury is actively pursuing outsourcing business. Early last year it won two big contracts, one from TSB and the other from GEC and, according to Mr Sexton, itis negotiating several others at the moment.

Paul Taylor

Europe's No. 1 telecommunications company is helping east-west business get into full swing

The Commonwealth of Independent States (CIS) needs access to western market economies. Equally, many European companies are interested in developing new business relationships further east. A fully functioning telecommunications infrastructure is a fundamental prerequisite for meeting these objectives. And it's on this international, east-west stage that Telekom is currently making a vital contribution.

Working closely with several other partners from German industry, we're participating in the CIS ROMANTIS project to create a satellite-supported communications network. This will link the CIS countries to each other and to the western telephone network.

But there's no need to wait until then: Telekom can already offer companies a super-fast data highway to even the remotest location in the east. Via Intelsat and the Russian Intersputnik system, we keep you in constant touch with your eastern contacts, so that together you can really get business moving.

So, in the interests of economic recovery and good inter-country relations, we're thinking a long way ahead.

If you, too, have demanding communications challenges to solve in the east, have a word with the No. 1 in Europe: Telekom.

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Fax: +44 71 287 50 99

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Tel.: +33 1 4070-00 00
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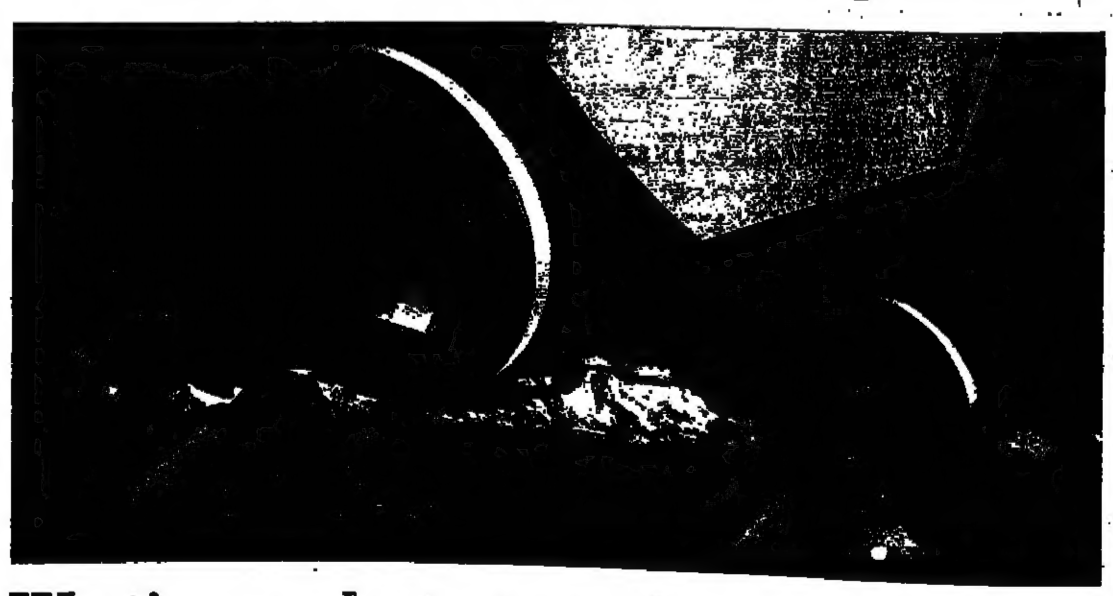


We tie markets together.

Telekom

■ DISCOUNT SCHEMES

Teams of experts ponder the options

One of the many criticisms that UK businesses used to make of telecommunications services in the UK was that the price of a call was the same regardless of whether you were a residential customer running up bills of £50 a quarter, or a multinational corporation generating millions of pounds a year of revenues for BT.

This is no longer the case. Since 1991, BT and Mercury have been offering a sliding scale of discounted telecommunications services, and large users have been buying telephone calls for as much as 20 per cent less than the infrequent caller.

But the introduction of discounts has brought with it a new problem: deciding which discount scheme is best, and predicting in advance the level of spend on telecommunications services over a period of three months.

Even when it is clear which of the packages offered by one operator is best, it can be difficult to compare discount schemes offered by BT on one hand, Mercury on the other, and increasingly, cable television companies and other competitors.

Large companies have telecommunications managers and teams of experts who can work their way through the different options and decide what mix of services suits them best.

But the small and medium-sized business, where telephone services have only ever merited the same care and consideration as gas, electricity or water supply, often lack the expertise and resources to make the right choice.

Those companies which make the wrong choice, or make no choice at all, may lose the opportunity to make savings on one of their biggest items of expenditure and one which will rise as we move towards an information-based society.

BT introduced the first bulk discounts in 1991. Mercury, which was offering discounts of between 10 per cent and 25 per cent on all long-distance and international routes, was stealing some of BT's biggest accounts and the former monopoly needed a defence.

BT's discounts apply on a site-by-site, or a multi-site basis. A company which houses all its operations under one roof would choose a site-by-site discount scheme. But for businesses with many different sites dotted around the country each generating a small amount of traffic – for example a chain of shops – a multi-site scheme could prove more attractive.

The site-by-site discount packages are called Option 15, Option 45, Option 50 and Option 70. For quarterly payments ranging from £3.40 to £275, users qualify for discounts on BT's basic call charges of between 10 per cent and 16 per cent. Residential and small business users usually opt for Option 15 or Option 45 because their quarterly spend is not high enough to make it worth their while paying the high up-front cost to qualify for maximum discounts.

Option 2000 is BT's multi-site discount package. With this tariff option there are discounts on total call charges generated by several sites. The same principle applies as with the other Options packages; users qualifying for discounts of between 14 per cent and 16 per cent in return for up-front quarterly payments of between 14 per cent and 16 per cent.

Deciding which combination of discount packages is right for your business is not easy

For every BT Option, Mercury has a discount scheme of its own. For Options 15, 40, 50 and 70, read Frequent Caller Programme Levels One, Two, Three and Four, all of which offer higher discounts on basic Mercury prices the greater the quarterly payment.

Mercury has a set of discounts for its directly connected customers on the one hand, and indirectly connected customers on the other. As a rule, large users are connected directly – they have Mercury lines running into and out of their premises – and small to medium-sized companies take indirect services in which case they are connected by BT lines as far as the local exchange, but connect to Mercury for long-distance and international calls.

For directly-connected sites, Mercury offers discounts averaging 5.7 per cent to 8.8 per cent in return for quarterly fees of between £300 and £700. Indirectly connected customers get discounts of 11.5 per cent to 17.4 per cent for national calls, and 18.3 per cent to 20.9 per cent for international calls after paying site fees of £5 to £450.

Mercury has another discount package called its Corporate Plan which is for multi-site businesses and to compete with BT's Option 2000.

Deciding which combination of discount packages is right for your business is not easy.

A niche has been created for independent consultants to provide expert advice, and there is increased demand for reports such as the *Octagon Guide to Telecommunications Tariffs* and the *Guide to BT and Mercury Business Telephony Tariffs* published by Infrastructure, Technology and Communications (ITC), a London-based consultancy.

The Octagon guide concludes that Mercury 2100 – its directly connected service – is the cheapest telephone service. "Mercury savings over BT," it says, "are up to 9 per cent, after taking account of the best BT or Mercury options, rental charges and option charges."

ITC's key findings are that Mercury savings for single sites are between 5 per cent and 15 per cent for directly-connected sites, and up to 10 per cent for indirectly-connected sites. On a multi-site basis, Mercury savings to BT range from 5 per cent to 10 per cent.

Medium to large businesses, however, will often require a mixture of BT and Mercury services and of single-site and multi-site discount packages. The savings on basic call charges for a company that mixes and matches different discount schemes is substantial.

Prudent management of telephone services is fast developing as an effective means of cost control.

Mark Newman

■ New entrants beside Mercury

Competition is slow

There has been a lot of huffing and puffing since the government lifted the remaining restrictions on competition to BT and Mercury in 1991. But few of the new telephone companies that announced plans around that time to build new telephone networks are close to delivering a service.

British Rail Telecommunications, British Waterways and National Networks – the start-up company which was going to use the Post Office's internal network – all came up with plans to build networks that would connect the main UK centres of population. But none are laying down telephone lines yet.

Meanwhile, US telephone companies Sprint and American Telephone and Telegraph are banging their drums loudly but have no intention of duplicating BT's, or even Mercury's less extensive network.

In fairness, most of the applicants are still waiting for the government to process their licence applications. But even after licences have been granted and the operators have secured financial backing and started building their networks, most new telephone companies are only ever likely to target a very small number of high-spending large business customers.

With BT, the cable television companies and Mercury Communications already poised for a two- or three-way fight for small to medium-sized business and residential customers – it will be a three-way fight if the cable television companies stop working in partnership with Mercury – it would be risky for any other company to embark on a multi-billion pound venture to cable up the whole of the country.

Most of the new competitors, therefore, are planning to build networks which rely heavily on the national infrastructures already in place courtesy of BT and Mercury.

A new breed of telephone companies called resellers are the clearest example of how it is possible to compete with BT and Mercury using their telephone network infrastructures.

Resellers lease private circuits on long-distance and international routes from BT and Mercury, and resell capacity on these routes to their customers.

A reseller can connect its customer to the BT or Mercury private circuit either with another private circuit, or by the public telephone network. In either case, a reseller buys the service from BT or Mercury, repackages it, and sells it to its customer.

Worldcom, the UK subsidiary of a Swiss telecommunications group, is one of 15 or so companies which consider that the UK offers attractive opportunities for resale. But Worldcom is the only company which has firmly established itself as a reseller and signed up big corporate accounts.

Worldcom offers services to the US and other leading international destinations at lower prices than either BT or the cheaper Mercury Communications.

It has more than 100 customers already and is well placed to benefit from the liberalisation of resale services in Europe.

Today, the opportunity for resale services in Europe are limited. But the European Commission intends to force member states to drop all restrictions on resale within the Community by 1998.

Other resellers are planning to enter the UK market over the next one to two years, all offering discounts to BT and Mercury on main routes. Most of these are new companies which plan to exploit the huge discrepancies between the actual cost and the price that is charged to the customer for delivering international services. Others are public telephone operators such as Swedish Telecom and Telecom Australia which will offer international services to UK subsidiaries of Swedish and Australian companies.

AT&T has not decided whether it will build a trunk network across the UK

This is clearly the attraction for AT&T, the US telecommunications giant which applied in April for a licence to operate a domestic and international telephone network.

AT&T has not decided whether it will build a trunk network across the UK. To build a network from scratch would cost billions of pounds and it would take tens of years to recoup the initial investment. One option would be for AT&T to partner one or more of those new competitors whose projects are already far advanced.

One such project is the proposed trunk network to be built by Energis, a company wholly owned by the National Grid company which operates the trunk electricity network in England and Wales. Energis plans to open the UK's third trunk telephone network in spring 1994. It will connect 17 of the largest towns and cities in England and Wales. Energis is investing £100m a year in the network over the next five years and would welcome a partner such as AT&T to share some of the investment burden. Energis received its licence from the DTI in May.

Energis will initially target business customers in city centres and offer them cheaper private circuit and public network services than BT or Mercury. It says it will make considerable savings on the construction costs of the network through the use of existing national grid infrastructure. It plans where possible to wrap optical fibre on overhead power lines as a cheap alternative to installing cable below ground – and it hopes to link its trunk network into local telephone networks that several regional electricity companies are planning to build.

The other project most likely to succeed involves the delivery of local telephone services by radio. Ionica is a start-up company which has developed the technology to deliver local telephone services to residential and small business customers using radio tails and bypassing the BT local telephone network. Ionica reckons it can provide a service to half the UK population over the next few years at prices considerably lower than BT or Mercury.

Today, the only real alternative to BT and Mercury for most business customers are the services delivered by the cable television companies. The cable operators' franchise areas cover 14.9m households and businesses, although most of these are still in the planning or network building phase. Nevertheless, they have already installed more than 150,000 telephone lines and more than 20 per cent of the BT customers they approach are signing up.

Cable television operators are mainly targeting small business and residential customers, offering them prices some 10 to 20 per cent cheaper than BT or Mercury. Many of them are offering new services such as call waiting or call forwarding. Diamond Cable, the cable television operator in Nottingham, has introduced free local calls if they are made between cable television network subscribers.

Mark Newman

■ QUALITY OF SERVICE

Blunt message from survey

PRICE is not everything. Companies want a reliable telecoms service and if new entrants to the market will not provide it, business will not go their way.

That is the blunt message of a detailed survey of user perceptions of the the UK's public network operators carried out at the end of last year by the Telecommunications Users Association which represents 1,100 companies nationwide spending at least £600m a year on telecoms between them.

The survey, of 1,000 companies, analysed the service provided by BT, Mercury and a few smaller providers.

Overall, satisfaction levels were high. BT generally scored better than Mercury, but there was little in it and on most measures of service quality more than two-thirds of users professed themselves "very" or "fairly" satisfied.

However, there were still some serious gripes. BT users were particularly concerned about:

- Billing. Concern was not so much about accuracy as frequency, layout and content.

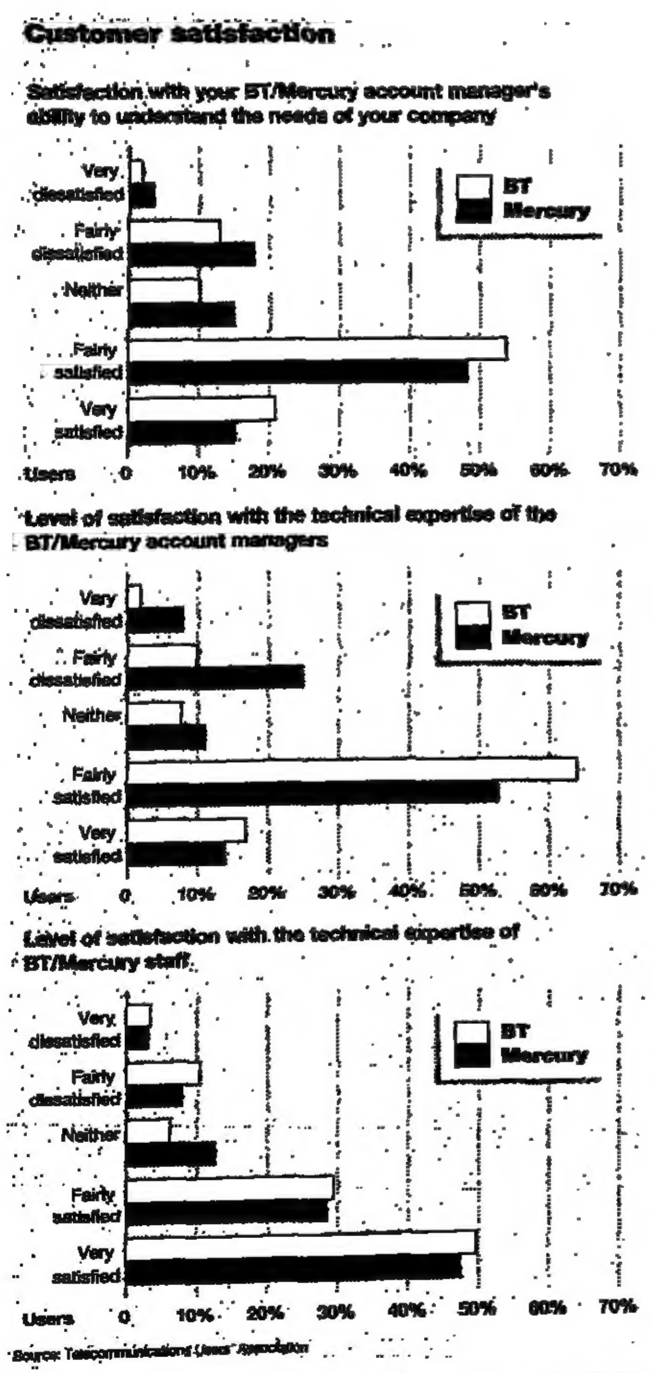
A recurring theme was the difficulty of calculating prices and comparing tariffs with ever-more-complex discount schemes

BT has recently made improvements to the last two, but complaints about frequency from smaller users, and the timing of reminders and threatened disconnections for all, are likely to persist.

BT says it has no "set rule" on the availability of monthly billing. Larger companies qualify; whether small and medium-sized ones do depends, according to a spokesman, "on their size relative to others in their area". In London that means they "probably have to have a bill of several hundreds of thousands a year" – although a trial of monthly billing for all companies is underway in one area.

As for reminders, the standard intervals are three weeks to a reminder; followed by second reminder and final notice. "However, precise intervals depend upon payment history", says the company. "Good payers generally get greater leeway."

- The frequency with which account managers were changed, and poor handover. Some customers complained of having two or three account managers within 18 months.
- BT's heavy redundancy programme over the past three years which, says the TUA, "has resulted in many customers feeling uncertain about BT's future ability to deliver".



Source: Telecommunications Users' Association

Some "major customer problems" were reported. Despite this, the report continues: "a majority still felt that BT was grossly over-staffed" – so evidently the company cannot win.

- *Information* about tariff options. A recurring theme was the difficulty of calculating prices and comparing tariffs between operators, with ever-more-complex *discount* schemes. As competition intensifies, no improvement is to be expected on this score. Least cost-routing software and smart boxes can do the thinking for you when it comes to selecting operators for particular calls, but the latter have created problems of their own and some new users require large initial payments that also need to be taken into account.

With Mercury, the main complaints were:

- Network congestion, particularly in the Manchester, Birmingham and East Anglia regions "and a general lack of responsiveness".

Half of all respondents reported one or more recurring faults with Mercury, often as a result of network congestion or failure.

Mercury says that since last autumn it has completed new switches, upgraded existing ones, and improved inter-connect arrangements with BT to relieve congestion in all three areas, "so there are no longer such traffic jams".

- Billing, with "bills for large amounts being sent sporadically" and inadequate machinery for dealing with complaints. Mercury says it is "examining" a new billing system, but has yet to make an announcement.
- "An overall feeling that outside London Mercury was thin on the ground and simply lacked the necessary resources." The company, which began life targeting City business traffic, still has work to do assuring out-of-London customers that they receive equal treatment.

It is too soon to pass judgment on the service provided by the 58 cable TV companies laying networks in the local loop. Indeed, most of the complaints against them have not been about the service provided, but rather the absence of any cables providing service in the first place. BT's Westminster contract area is a prime source of complaints, although BT recently promised to take the contract seriously and make the outlay required to fulfil its licence.

However, one new entrant wins plaudits from the TUA: Worldcom, a fast-growing London operator linking private networks into leased national and international leased lines, which has applied for a public telecommunications operator licence to enable it to offer services via the switched network.

Worldcom branched out from the leased line business barely 18 months ago, yet now has 80 customers and has only lost one since – and that was not to do with quality. Claiming to charge up to 15 per cent less than Mercury, it is no wonder that the City is discovering it fast.

Mr David Hardwick, Worldcom's managing director, says its ability to maintain quality is no surprise. "After all, our equipment is the same as that used by BT and Mercury – and virtually all our staff come from one or the other." Including Mr Hardwick himself, who left BT four years ago.

Unsurprisingly, the TUA members are keen to see greater competition. Only 31 per cent thought there was "adequate" competition. The rest wanted to see more, in three areas in particular: the provision of analogue private circuits; in local calls (where BT still has a virtual monopoly – and will continue to over much of the country even when and if the local cable companies start attracting customers *en masse*); and in geographical areas where Mercury is weak.

"An overriding majority of the users outside the Greater London area felt there was no real alternative to BT", conclude the TUA. As one user put it: "The problem is, who will want to service the rural or unglamorous areas?" Who indeed.

Andrew Adonis

Syncordia and the emergence of global supercarriers

Latching on to demand

"OUTSOURCING" is now all the rage among international telecoms companies. Most state telecoms companies are in or entering the business of providing a "one-stop shop" for companies, servicing and managing as much of their telecoms needs as they are prepared to put out of house.

In the UK, both Mercury and BT have managed services divisions. Last month, BT named its domestic outsourcing unit "Communications Management", targeted at companies with large and complex private networks, on the day it announced a £5m five-year contract to take over the ownership and management of Thorn EMI's internal UK telephone network.

However, BT's outsourcing strategy does not stop at the Channel: one of its over-riding ambitions is to become a leading "global outsourcer". It faces stiff competition for the title from American Telephone & Telegraph, the largest US operator.

BT and AT&T have latched on to a demand – part evident, part anticipated – from the world's 2,500-odd multinationals for a "one stop" global provider able to do everything from maintaining private networks to sorting out customer requirements with local telecoms companies in several countries while providing single billing and a single telecoms port of call.

Add into the equation the capacity of the international telecoms operator to provide the latest in network features, billing, servicing and high-speed data transmission facilities, and that makes your global outsourcer.

As Mr Vic Pelson, president of AT&T's communications services group, puts it: "Multinationals want communications services that give them global capabilities. And they want them now."

There is nothing new in partnerships between telecoms companies to provide international services. So-called "correspondent" arrangements to inter-connect virtual private networks across borders, and to provide services such as abbreviated direct dialling and single billing for traffic carried between two operators, have been in place for years.

AT&T's Global Software Defined Network (GSDN) gives it a correspondent link with 21 other international carriers, including BT; BT's counterpart, FeatureNet, embraces 14 carriers and has more than 100 customers.

However, the latest outsourcing ventures by the two companies – AT&T's Worldsource launched last month and BT's Syncordia, started in 1991 – are far more ambitious. Designed both to enhance the range and quality of existing services, their aim is to provide a truly one-stop international facility for multinationals.

Initial Worldsource services, available later this year, will include virtual network services for voice and data communications, upgraded private-line services, frame relay service for high-speed data transmission and "one-stop shopping" for ordering, maintenance and billing, with bills consolidated in a customer's choice of country and currency.

Although AT&T and BT are marketing similar services, and both are investing heavily in upgrading overseas facilities, the strategies of Syncordia and Worldsource are starkly at odds. Syncordia, based in Atlanta, Georgia, was originally intended to be a strategic partnership with Germany's Deutsche Telekom and Japan's Nippon Telegraph and Telephone. But neither proposed link-up came off, with Deutsche Telekom breaking away and forming a rival enterprise with France Telecom.

Syncordia will in due course be subsumed in a new $1bn joint venture formed with MCI, the second-largest US carrier. The deal with MCI marks the end of BT's "go-it-alone" approach, and its attempt – presently before the Federal Communications Commission – to become a public operator in the US in its own right is expected to be quietly dropped. AT&T, on the other hand, intends vigorously to pursue its application for direct access to the UK public networks.

Syncordia now has nine takers worth $200m a year. These include a five-year contract managing BP's voice, data, video and messaging services among five sites in the UK and Stavanger, Norway; and the communications network of BP Chemicals among 11 sites in seven European countries.

It is hardly taking the international telecoms world by storm – but then, says BT, "multinationals cannot be expected to outsource overnight."

By contrast, AT&T's Worldsource was launched in Japan with two partners (Kokusai Denshin Denwa of Japan and Singapore Telecom) and the strong likelihood of three others joining soon (Unitel of Canada, Telstra of Australia and Korea Telecom).

An entry into Europe is critical if Worldsource is to succeed. AT&T is budgeting to spend $350m over the next five years providing facilities and upgrading equipment in Europe. Mr John Foster, director of AT&T's communications services in Europe, professes himself keen to talk to "almost any" of Europe's telecoms operators about a link-up, and expects to launch Worldsource in Europe next year.

Because Worldsource does not give AT&T exclusive rights over its partners, most of Europe's state telecoms operators appear to have little to lose from participation. Unless, that is, they want to be global outsourcers themselves, and are anxious to give no succour to AT&T.

For companies such as Deutsche Telekom and Telecom France, AT&T's move is a challenge to them to clarify their international strategies and link up with partners. BT has already shown its hand, which could give the US operator problems in the UK. But AT&T is not restricted to BT: Mercury and Energis are potential partners.

How many of the 2,500 multinationals are in the market for the outsourcers? At Worldsource's launch, AT&T presented a formidable group, including Unisys, Honeywell, Motorola and United Parcel Service. Its decision to launch first in Asia-Pacific is significant: the region has the world's fastest-growing telecoms sector, wide open to outsiders with cash and expertise – and is replete with multinationals demanding better services.

However, one-stop shops and fancy services alone will not be enough to attract the multinationals. They already have top-notch telecoms managers. The bottom line will be critical.

Andrew Adonis

■ Value-added services: The fax market

Falling prices attract new users

Today, the fax machine is as much a part of office life as the old Remington typewriter once was. Prices have fallen fast and models are available for less than £400. This is starting to attract new users who want a machine at home either because they do some of their work there, or because it is a cheaper and more convenient way of communicating with relatives overseas.

The Swedish paper and pulp association estimates that fax machines will multiply from 5m worldwide in 1989 to nearly 16m this year and will reach 27m by 1995. A survey published in April by market researchers Gallup and Pitney Bowes Facsimile Systems shows that fax traffic is increasing at an astonishing rate in the UK – a rise of 133 per cent in the number of faxes sent and a 38 per cent rise in the number of documents received by respondents.

Meredith Fischer of Pitney Bowes says: "At these volumes, companies should be taking control of their fax networks and forming specific policies." She believes there are huge sums to be saved.

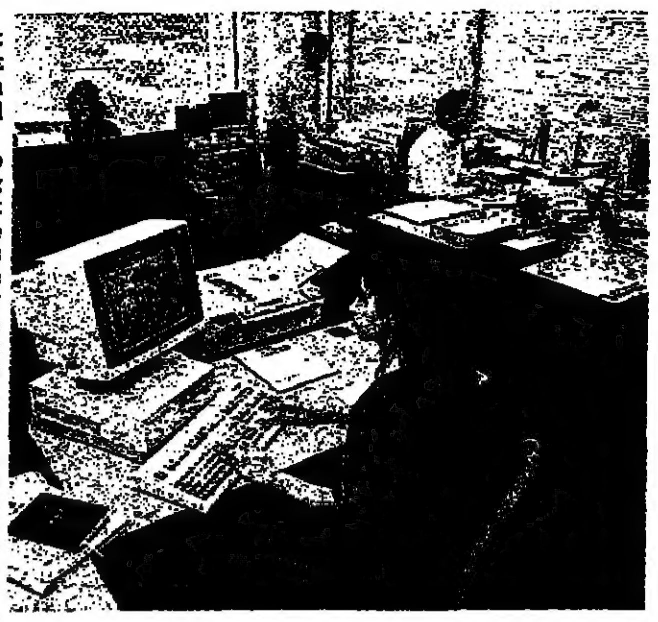
Companies can save money by:

● Using plain paper fax machines. These cut costs because they don't require expensive thermal paper. Plain paper is almost half the price – about 1.6 pence a sheet compared with three pence for thermal. In addition, plain paper faxes don't need to be photocopied because they don't fade. Fischer estimates that it costs 60 pence to copy each document including secretarial time and paper.

Plain paper fax machines do cost more to buy – anything between £1,000 and £5,000. But the potential benefits are encouraging a lot of companies to trade up. According to the British Facsimile Industry Consultative Committee (BFICC), about half the fax machines sold in the UK are replacement machines and most of these are plain paper faxes.

There are two kinds of plain paper fax. Those which use ink-bubblejet technology (this gives near-laser-quality output) starting at £1,000 and those which use laser-light-emitting-diode (LED) technology starting at £1,500. The main players in the ink-bubblejet market are Canon and Panasonic. But most other suppliers, including Sharp, Panasonic, NEC, Canon Matsushita, Ricoh and Toshiba, sell laser or LED plain-paper machines. The market is very competitive and prices are likely to fall further.

● Buying faster machines. Facsimile machines with transmission speeds of up to 14.4 kilobits per second (kbps) are available from £1,500. They can provide considerable savings on telephone charges over standard machines which operate at 9.6 or 7.2 kbps.



The BBC employs an Xerox 7033 Lan/fax server in its news department

Using a 14.4 kbps fax working to the Group 3 industry standard, a short letter will take six seconds to send as opposed to 20 seconds on the average Group 3 fax. The improvement in speed has been made possible by a new CCITT standard (MMR) for compressing data, which takes away all redundant information.

● Routing fax traffic to data lines. Faxes normally send information in analogue form (like the human voice). But it is possible to convert Group 3 fax data into a digital format which can then be sent over the company data network. For example, NEC, the Japanese electronics company and fax supplier, sends fax data over its worldwide data network.

There is no incremental cost for doing this because the network is already in existence.

According to Mr Lester Davis, chairman of BFICC and product manager for telecoms products at NEC: "One problem in this area is the lack of standards for converting fax signals from analogue to digital. However, the CCITT recently ratified a version of the Group 3 standard – Group 3 bis – which will work over the Integrated Services Digital Network (ISDN)."

Fax machines which support Group 3 bis should start to appear next year. They will be able to send data to similar machines at 64 kilobits a second, cutting transmission costs, or transmit to standard Group 3 faxes at lower speeds.

● Using advanced features. Top-of-the-range fax machines offer a lot of advanced features, many of which can help to cut costs. For example, some machines have the ability to send non-urgent faxes overnight.

Of these, a number allow batch transmission of overnight faxes. They group together all faxes going to the same number and send them at the same time.

This can cut costs substantially because the "handshake" part of the call, in which a fax machine identifies itself to another, only needs to be carried out once.

● Cutting down on queueing. Many highly-paid executives waste valuable time hanging around at the fax machine waiting to send messages. Mercury has estimated that sending an average of 6,000 faxes a week will cost a company more than £100,000 a year in staff time alone.

Waiting time can be reduced in a number of ways, for example by giving users low-cost desk-top fax machines or by subscribing to third-party services such as BT's Featurefax or Mercury's Surefax, which re-send faxes or fax many destinations for users.

Some high-end fax machines also allow users to scan a document into memory, type in the recipient's fax number, and then leave the machine to do the rest.

Another way of reducing the fax queue is to equip stand-alone personal computers (PCs) or PC networks with technology which enables them to send documents straight into the fax network.

For example, the BBC's news and current affairs department has installed a Xerox Lan-Fax Express 21 (a combination of hardware and software) to connect all 20 of the department's PC network users to a single fax machine. This enables them to create, send, receive and view faxes without having to leave their desks.

There are a host of products for computer-fax ranging from plug-in fax cards (which can be cheaper than fax machines), to fax modems and servers. Some can be used to centralise management of faxes and improve cost control.

For example, Comwave's centralised fax switch will help Lloyds insurance and reinsurance broker C T Bowring cut fax costs by £500,000 over five years.

Of course, the fax is not always viewed as an overhead. At "white goods" supplier Seeboard, field service engineers have been given NEC briefcase faxes (which plug into portable phones) so that they can order spare parts in front of the customer or get call-out details without going into the office. The company expects increased levels of efficiency and customer satisfaction.

Home users, too, are unlikely to face large fax bills. Their problem may be too few faxes rather than too many.

Mr Davis says the industry is working on standards which will simplify the use of database services for domestic fax users. Before long they could be using their Amstrad faxes to call up information from shopping catalogues or book holidays.

One day the home fax could be as much a part of everyday life as the electric toaster.

Joia Shillingford

■ Vsat services

VW revives fortunes

GERMAN car manufacturer Volkswagen has revived the fortunes of a satellite-based business communications technology which was in danger of being suffocated by regulatory obstacles before it had even made its mark in Europe.

Volkswagen has awarded a contract to Scientific Atlanta of the US to install the largest internal satellite communications network in Europe. It will eventually connect 6,000 Volkswagen dealers in different countries and is to be used for data communications and business television services.

Signals will be received and transmitted via very small aperture terminals (Vsat) dishes developed in the US that are only a fraction of the size and price of the conventional satellite dish.

Vsat networks the same size as Volkswagen are commonplace in the US, but in Europe Vsats have been slow to take off. Previously, the largest two-way contract in Europe was a 150-terminal network run by the Italian government's department of social security.

There are a number of reasons why Vsats have failed to make their mark in Europe.

First, the services that can be transmitted by Vsat can also be delivered by terrestrial data communications networks. State-owned telephone operators across Europe control this business because they supply the private circuits which companies need to build their own private data communications networks. They also operate public data networks.

The public operators have been reluctant to unlock the potential of Vsats which are identified with small private service providers who could even threaten their own businesses.

The development of Vsat services has largely been driven by private companies. But they have found the way blocked by the PTTs (post, telegraph and telephone companies) who control the sale of satellite capacity – Europe's telephone operators jointly own Eutelsat, the European satellite organisation – and who can resort to a number of tactics to hinder and delay the deployment of networks.

The biggest potential for Vsats lies in the installation of pan-European networks for companies with offices in several different countries.

It can be technically difficult and immensely time-consuming to piece together a pan-European network using leased lines, so a satellite network, which can be installed in a matter of weeks, provides an attractive alternative.

Volkswagen went for a Vsat network because it met the German company's requirement better than terrestrial links, according to Mr Klaus Schultz, Volkswagen's director of communications systems.

Availability of leased lines in Europe is poor, he says, and Vsats also give greater flexibility. The company will use Vsats to send information to its dealers and also plans a business television service in the future.

Three other leading European car manufacturers have also been pioneers in the deployment of Vsat networks. Renault of France has a two-way data communications Vsat network for its 140 dealers in eastern Germany.

The network was installed by Teleport Europe, the leading supplier of Vsat systems in Europe. Daimler Benz has linked 20 of its European subsidiaries on a Vsat network supplied by Deutsche Telekom. And last year, BT won a contract from Ford's UK arm to install a one-way Vsat-based television network for several hundred UK dealers.

Car companies are particularly suited to Vsat satellite systems because they have a requirement for point-to-multipoint communications. Their central offices need to send and receive data from many outlying sites where their dealers are based.

Campsa, the Spanish chain of petrol stations, is using a Vsat network to route information from its main offices to petrol stations up and down the country. Campsa had to bully Spain's semi state-owned telephone operator Telefonica into installing its network. Telefonica is one of the public operators which have largely ignored the arrival of Vsat systems.

But the success of Vsats in the car industry has not been mirrored in other sectors.

While the unfavourable regulatory environment and the hostility of the public telephone operators have been crucial factors in the slow take-up for Vsats, there has also been a problem persuading businesses that Vsats provide a reliable and cost-effective alternative to terrestrial networks.

"Service providers are affected by the image of the sector as immature, unstable, risky and under-resourced," according to report published by the Cambridge-based telecommunications consultancy Analysys earlier this year.

It says this perception will change in coming years, but for the moment, "No service provider has yet had time to establish a track record that could completely reassure the average corporate telecommunications manager."

Many of the service providers are names new to telecoms managers

Many of the service providers are names new to corporate telecommunications managers.

Teleport Europe was set up in 1990 specifically to offer Vsat services, while Scientific Atlanta is an established service provider in the US, but has only started to make an impression in Europe in the past year.

Pricing Vsat services has been another problem. Few customers will switch from terrestrial solutions to satellite solutions unless there is a cost saving.

Service providers are undercutting public telephone operators for large Vsat networks, but offer only small price savings for smaller systems.

Volkswagen, therefore, was able to achieve a lower price than if it had opted for a terrestrial network. But this will be the first two-way network with more than 1,000 terminals and most networks only have about 50 terminals.

Analysys believes that service providers will have to drop their prices for these smaller networks if they are to develop their businesses.

There has always been an expectation that Vsat services will make the same impact in Europe as in the US where leading corporations such as General Motors, Chevron and Chrysler have Vsat networks covering thousands of sites. There are well over 100,000 one-way and two-way Vsat terminals installed in the US, compared to less than 10,000 in Europe.

But several industry players now say that comparisons are invalid. In the US, the retailing, distribution and financial sectors have been the big sectors for Vsats.

Analysys notes that "the geographical spread of these services in Europe is much more restricted." There are, for example, no European equivalents of nationwide US retailers such as K-Mart.

Patterns of use may, therefore, develop very differently in Europe, according to Analysys.

Mark Newman